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# The State of Small Business



December 1986

Annual Report  
on Small Business  
in Ontario





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December 1986

Annual Report  
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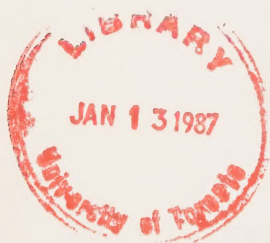
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## Minister of Industry, Trade and Technology

It gives me great pleasure to issue this report on *The State of Small Business* in Ontario. It is the first edition of what will be an annual publication that looks at the vital importance of small business in our economy and the role of the government in assisting this sector.

Small companies now provide the vast bulk of new job opportunities for Canadians, a fact that has been recognized by this government.

In recent months, we have established a Committee of Parliamentary Assistants to investigate ways of stimulating the creation of more new firms.

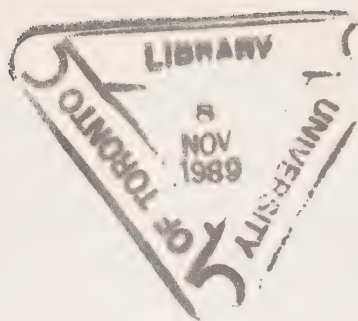
That committee has already produced results through the New Ventures loan guarantee program. New Ventures is expected to open up over \$100 million a year in financing through private lenders.

This will make a significant contribution toward the formation of more than 100,000 new companies expected in the next 12 months. These new firms, in turn, promise to create many more jobs for Ontarians.

This government will continue to seek out new ways of stimulating the entrepreneurial abilities of the people of the province so that we may build a strong base for our future prosperity.

A handwritten signature in dark ink, reading "Hugh P. O'Neil".

Hugh P. O'Neil  
Minister of Industry,  
Trade and Technology





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# Report of the Committee of Parliamentary Assistants for Small Business





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Rick Ferraro, M.P.P.  
Chairman  
Ministry of Industry,  
Trade and Technology

Joseph Cordiano, M.P.P.  
Ministry of Skills  
Development

Herb Epp, M.P.P.  
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and Economics

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Steven Offer, M.P.P.  
Ministry of Consumer and  
Commercial Relations

Jean Poirier, M.P.P.  
Ministry of the  
Environment

Claudio Polsinelli, M.P.P.  
Ministry of Labour





## Committee of Parliamentary Assistants for Small Business

December 1, 1986

The Honourable Hugh P. O'Neil  
Minister  
Ministry of Industry, Trade  
and Technology  
8th Floor, Hearst Block  
Queen's Park  
Toronto, Ontario

Dear Mr. Minister:

I have the honour and privilege of presenting to you the first annual report on *The State of Small Business*. This document contains important findings on the outstanding contributions of small business owners, their firms and employees to the economic prosperity of the province.

The Committee of Parliamentary Assistants for Small Business is issuing this report to the Legislature to highlight the government's achievements in support of small business. We are especially proud of the New Ventures program, which is making available guaranteed loans to help thousands of new businesses succeed.

In addition to showing the exciting record of small business expansion and job creation, *The State of Small Business* sets forth concerns of the small business community. If we are to continue enjoying the benefits of dynamic, innovative, growing entrepreneurship, the government and all members of the Legislature must give due priority to enhancing Ontario's business climate. With this goal in mind, it is a particular strength of the committee that all members are involved in ministries of the government that directly affect the interests of small business owners.

On behalf of the committee, I thank you for the support and encouragement you and officials of your ministry have given us over the past year.

Yours sincerely,

A handwritten signature in cursive script, appearing to read "Rick Ferraro".

Rick Ferraro, M.P.P.  
Chairman  
Committee of Parliamentary Assistants  
for Small Business



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# Report of the Committee of Parliamentary Assistants for Small Business

This is our first report to the Ontario Legislature on the state of small business in the province. It details the performance, concerns and priorities of the most dynamic segment of our economy — Ontario's 304,000 small business owners.

The Committee of Parliamentary Assistants for Small Business, appointed by the Premier and the Minister of Industry, Trade and Technology in January, 1986, is issuing this public statement and annual report on small business in order to celebrate the achievements of Ontario's entrepreneurs and raise the priority of small business concerns on the legislative agenda.

The committee also wishes to report on its activities and achievements toward fulfilling its mandate, announced in April, 1986, by the Minister of Industry, Trade and Technology. That mandate is:

1. to demonstrate to the business community that the Ontario government has a positive, coordinated approach to small business owners;
2. to consider existing programs for small business and ensure that they are effective, accessible and designed to provide maximum benefit;
3. to develop a process for reviewing existing regulation and screening new legislation and rules to make them as responsive as possible to the realities of doing business;
4. to advise the government on new ideas and initiatives in support of small business.

Shortly after the appointment of the committee, the minister announced that its chairman, Rick Ferraro, MPP (Wellington South), would be appointed to the position of Small Business Advocate. This appointment underlines the importance of advocacy in the mandate of the committee. It responds to the insistence of business owners that the government create a focus for the views of small business to be represented effectively within the government. Mr. Ferraro and members of the committee have been identified as the point of access for groups

that wish to engage the government in dialogue on small business issues.

Members of the committee are also working within their respective ministries to improve the regulatory climate for small business. This is a main strength of the committee as its members represent key ministries that affect the environment for entrepreneurship in Ontario.

The committee has a special responsibility to promote small business to the public. This report documents the contribution of Ontario's 304,000 business owners to job creation, innovation and economic opportunity. It shows how they are helping to provide a rising standard of living and directly affecting the livelihoods of four million Ontarians. Increased awareness of the importance of small business to our prosperity will help build support for actions that are favourable to entrepreneurship. This is a key strategy for developing and maintaining a favourable business climate in the province.

## **Listening to Small Business Owners**

The first step the committee took as soon as its existence was announced was to listen to small business owners. Starting in April, 1986, the committee began to meet with business groups. These included the Canadian Federation of Independent Business, the Canadian Organization of Small Business, the Ontario Chamber of Commerce, the Canadian Manufacturers' Association, the Canadian Association of Women Executives and Entrepreneurs, the Canadian Association of Family Enterprise, the Retail Council of Canada, Tourism Ontario, the Ontario Trucking Association, the Board of Trade of Metropolitan Toronto, the Council of Ontario Contractors Association, the Insurance Brokers Association of Ontario, the Ontario Nursing Home Association and others.

Listening to business was essential in order to understand the real concerns of the small business community. It was also important in order to set priorities for what the government should do for small business jointly with those affected. The committee also understood that consultation was part of its mandate to provide a point of contact and recognize small business owners as a highly legitimate interest group.

Those meetings communicated vital messages to members of the committee. Business groups voiced their concerns about the relationship between business and the government in the province. There were searching questions about how the government's legislative agenda would impact the cost and practices of doing business in Ontario. In particular, business owners spoke about impending legisla-



tion in areas of labour relations, employment standards and pay equity. They warned the government that the burden of taxation — and in particular payroll taxes — was a powerful disincentive to investment and job creation. They pointed out serious problems of getting capital, especially equity financing, to start new firms and make established companies grow.

In addition to the messages of concern, there was a heartening acceptance of the committee's role and mandate. Business groups confirmed that the government had acted wisely in setting up a unified point of access. They were willing to believe the committee could be useful and deserved their cooperation.

The committee has found that it can serve as a channel to the government for the small business community and help boost the voice of the small business owner in the hurly-burly of interest group competition. The business owner as an individual can rarely take the time to participate in the process of government and yet the government inevitably looms large as a factor in the profitability and even survival of many small companies. While business associations play a crucial role in voicing the needs of their constituents, there are many instances when a voice inside the government can complement the organized business community. For one thing, new policy and legislation are often conceived and developed over a period of time prior to public debate.

Committee members also perceived that they could help reconcile the broad public interest embodied in the government's policy directions and the particular needs of the small business community. They discovered opportunities to advise the government on how and when new legislation would impact the business owner. In this way, the government could develop more sensitivity to the needs of small business and its capacity to change and adapt to new conditions.

## **Achievements for Small Business**

In its first year, the government has received wide approval for the way it has moved forward to fulfill its legislative and policy agenda. In addition to achievements in fields such as health care, the environment, labour and the status of women, the government has put in place valuable initiatives for economic growth. The Committee of Parliamentary Assistants for Small Business has played a part in some of the most important measures in support of Ontario's entrepreneurs.

The first major achievement of the committee was the New Ventures program. The committee understood immediately the critical problem of raising more investment capital to start new companies and

began early last winter to map out a strategic response. The result, New Ventures guaranteed loans, available from private lenders at more than 1,500 local branches across the province, is a revolutionary development in government assistance to business. Armed with the provincial guarantee, the business owner who has a good idea, solid knowledge of the market and a well formulated business plan can obtain start-up financing to match his or her own stake in the new company up to \$15,000. A key element of New Ventures is its direct delivery by financial institutions. The committee hopes that New Ventures will encourage more financial institutions to provide commercial credit to small businesses.

The committee developed this proposal in close consultation with the business community. The Treasurer of Ontario, the Honourable Robert Nixon, made New Ventures a feature of the 1986 Ontario Budget. New Ventures will, in its first full year of operation, guarantee loans to 7,000 new businesses and stimulate more than \$100 million of new small business lending in the province. The employment dividends to Ontario will be large, creating jobs for more than 20,000 people.

The government has also teamed up in support of small business with the Ontario Chamber of Commerce. The government and the Chamber are collaborating to establish the Computerized Ontario Investment Network (COIN). The network will match investors and business owners across the province, improving the placement of investment capital. The Chamber is responsible for developing COIN, and the government is lending support for promoting the program and providing advice and counsel services to participants.

On May 26, 1986, the committee and ministry officials briefed the government caucus on small business in Ontario. The committee mapped out its priorities and the exciting opportunities for the government to move forward in the small business field. Members of the government caucus were enthusiastic in support of the committee's approach and confident that support of small business would create jobs and strengthen Ontario's economy.

The committee has linked up with like-minded groups in other provinces and at the federal level as well. Mr. Ferraro met with the chairman of Manitoba's legislative committee for small business and initiated an exchange of information. Similarly, ideas from Quebec's task force on regulatory reform have been embodied in the committee's work program. The committee has supported federal initiatives to promote community-based investment such as changes in Registered Retirement Savings Plan rules to permit investment in small business.

Ontario is working with the federal Small Business Secretariat to promote the opportunities to raise equity capital through such new tax provisions.

As members of the legislature, we have considered how MPPs can assist constituents who may want to start a business or get management assistance through the government's advice and counsel programs. At the committee's suggestion, the Ministry of Industry, Trade and Technology has provided a selection of small business literature to all members of the legislature in a convenient display rack for constituency offices. These racks contain vital information on starting a business, financing sources and educational seminars and publications available to business owners and new entrepreneurs.

The government's small business initiatives, especially New Ventures, have stimulated a strong response from the public. The toll-free Small Business Hotline now averages 340 calls a day. The hotline provides a central access point for information on government programs, rules and regulations. Operators answer entrepreneurs' basic questions and refer callers to the appropriate agency for detailed information.

Among the leading issues on the government's agenda in the past year were several that have strong implications for the small business community. The committee has been quick to express its views on them. Committee members briefed the Minister of Consumer and Commercial Relations on the importance to small business of the legislation to permit independent grocery stores to sell beer and wine. The committee has monitored the formulation of legislation to implement the government's promise of equal pay for work of equal value in the private sector. Several business groups have approached the committee on the question of hours of work and overtime. The Minister of Industry, Trade and Technology has asked the Committee of Parliamentary Assistants to consider the federal government's study of regulation and paper burden as it affects Ontario small business and report on a comprehensive strategy for reform.

As members of the legislature, committee members have worked on other issues important to small business owners. For example, the legislative committee on economic policy has studied the question of free trade with the United States. Another member of the committee, Steven Offer, MPP (Mississauga), has been appointed to chair the government's review of liquor regulations. In all these endeavors, members are consulting with their colleagues and taking the impact on small business owners into account.



In order to make wise decisions and advise the government competently on issues affecting small business, the committee has adopted a research program to provide the best available information on small business and its economic environment. Initial results of these efforts are contained in this report on small business. Future reports will convey more extensive information on the performance of small business, its leading concerns and the prospects for growth.

In all of these efforts, the Committee of Parliamentary Assistants has received strong support from officials of the Ministry of Industry, Trade and Technology. The result has been very effective work on behalf of the small business owners of the province.

### **Highlights of the First Annual Report on Small Business**

While the report on small business deserves detailed study, members of the committee want to highlight key findings for members of the legislature and the public. These findings establish a new frame of reference for understanding small business and the Ontario economy.

1. Small business is a mass phenomenon. There are 304,000 small business owners in Ontario and most of them — over 90 per cent — have fewer than 20 employees.
2. Small business continues to be the most dynamic source of job creation. Eighty-two percent of all net new jobs in Ontario came from small business and the majority of those from the formation of new companies. The province's small service sector businesses accounted for over two-thirds of the net job gain.
3. Ontario is experiencing a rising wave of new business formation. In the past year, 99,000 new companies were formed in the province, and the annual rate is constantly rising.
4. The dynamic performance of start-up companies is not matched by growth to medium size. Policymakers must turn their attention to how more companies can make the transition from small to medium size and reach a scale of national and international competitiveness.
5. The participation of women and young people as small business owners is increasing significantly. Nearly a quarter of Ontario businesses are now owned by women. Young people under the age of 30 now account for over 40 percent of business starts.
6. Ontario has a very positive business climate, to all indications the most favourable in Canada.

## The Small Business Challenge

After nearly a year of listening to small business owners, the committee is sensitive to the needs of small businesses. Above all, small business owners want and need a positive business climate. Rather than seeking subsidies or special privileges, business owners want an environment that lets them achieve their full potential. That means an environment in which the drag of excessive regulation is kept to a minimum. It means running a lean and efficient government so that the entrepreneur carries the lowest possible tax burden. It means public recognition of enterprise and expressions of esteem for the social value of the entrepreneur. As George Gilder wrote in *The Spirit of Enterprise*, "Society is always in debt to the entrepreneurs who sustain it and rarely consume by themselves more than the smallest share of what they give society."<sup>1</sup>

More specifically, a positive business climate consists of conditions favourable to investment. That requires that investors have reasonable expectations of profit commensurate with risk. It requires a degree of stability in taxation and regulation so that business owners and investors can act with reasonable certainty about the rules of the game.

New policies and legislation should take into account the special needs of the small business owner, especially businesses at the vulnerable stage of start-up when money is scarce and time to prepare for business ownership is at a premium. The government must also constantly bear in mind the severely limited resources of the small firm to comply with laws and regulations. Wherever possible, the demands a government places on the small firm should be simpler, cheaper and clearer than for business in general. All of the bugs should be worked out of legislation before it is applied to the small company.

The committee calls to the attention of the legislature the challenges of the year ahead in shaping a business climate friendly to small firms. The first challenge is to commit ourselves to making progress with sensitivity to the trade-offs between goals in labour and social legislation, the environment, health care and so on and the particular costs and burdens of compliance that fall on the small business owner. Secondly, the government should reform the process of legislation and regulation with procedures for early notice, regulatory flexibility and small business impact studies. Thirdly, in concert with the federal government, Ontario should reinforce initiatives already in place for community based financing of small business. Finally, the government should make small business a central element of regional development strategy.

We are convinced that small business owners are making an enormous contribution to Ontario's development and prosperity. Their values, talents and energies are helping us move toward the province's full potential. Most importantly, entrepreneurs and small business owners are a precious resource found in every community and region. To fully liberate and benefit from that resource, the government will be called on to act on the challenges set out in this report. We are hopeful that the government and members of the legislature will continue to respond with faith in Ontario's small business community.

<sup>1</sup>George Gilder, *The Spirit of Enterprise*, Simon and Schuster, 1984, p. 17.



# Annual Report on Small Business in Ontario





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## *Acknowledgement*

The Government of Ontario would like to recognize the sources underlying the quality and content of this first *Annual Report on Small Business in Ontario*.

The project was designed and prepared by Lance H. K. Secretan, recognized expert on small business and entrepreneurship. Original research and editing was undertaken by Alan Harman. The report gained significantly from the thoughtful advice and technical assistance offered by Rena Blatt, Small Business Advocate, Ontario Ministry of Industry, Trade and Technology.

A great many contributors, advisors and sources have helped shape the final content of this study, including:

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# 1 Executive Summary

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The Canadian small business sector is often defined as those firms with up to \$2 million in annual sales or employing fewer than 50 employees. By this definition, some 750,000 small businesses account for 96 percent of all Canadian firms, and, although the majority of them employ fewer than 20 people, they account for 26 percent of all employment. Between 1978 and 1984, they accounted for 96 percent of the net new job creation across the country.

## **Employment and Job Creation**

Between 1978 and 1982, firms with fewer than five employees accounted for 96.5 percent of all jobs created in the Canadian private sector. During the same period, companies employing fewer than 20 employees accounted for 90 percent of net new job creation. These ultra-small firms are the source of most new business start-ups. Start-up companies created 40 percent of all new job opportunities in Canada from 1978 to 1982, demonstrating their crucial actual and potential impact on wealth creation and the reduction of current unemployment levels.

In 1982, Ontario enjoyed 38.9 percent of Canada's employment. In that year, Ontario's private sector employment growth rates did not equal the national average. Ontario's manufacturing sector is proportionately larger than those of other provinces, making it more susceptible to economic vicissitudes, and the relative size and previous vigor of Ontario's economy made the continuance of sizeable year-on-year employment gains difficult to maintain.

By 1984, in a burst of economic energy, Ontario was well into the post-recession expansion. From 1978 to 1984, 393,000 new jobs were created in the province, almost half of the increase in employment across Canada. Small firms with fewer than 20 employees accounted for 4 percent of the new jobs for Ontarians in that six year period. Ontario's definition of a small business is one employing fewer than 100 workers.

In 1985, Ontarians formed 99,000 new businesses, of which 3,800 were firms hiring additional employees beyond the owner. They created over 180,000 new job opportunities and generated \$500 million in new investment.



## Sectoral Distribution of Small Business

Of the 304,000 small businesses in Ontario, 92 percent of them are in the service sector, seven percent in manufacturing and one percent in natural resources. They account for 98 percent of all companies and 50 percent of private sector employment in Ontario.

Ontario accounts for 34 percent of all manufacturing establishments in Canada, over 60 percent of Canada's manufacturing sales and 52 percent of Canadian employment in manufacturing.

In the tertiary sector of the Canadian economy (those companies that are not members of the manufacturing or resource industries), the vast majority of firms are small businesses. They are especially dominant in the service, construction and finance sectors. It is because of these demographics that small businesses have played such a pivotal role in fuelling Canada's recent economic performance.

Small businesses that provide services to other businesses are one of the fastest growth sectors of the economy. In the last 10 years, the number of staff employed in these firms has grown by 67.8 percent (297,000 to 498,000), more than three times the national average of 19.4 percent. This sector includes, among others, accounting, advertising, architecture, computer services, employment agencies, engineering and scientific services, law, management and business counselling, security and investigation, and miscellaneous services to business management. The driving force behind this phenomenon is the "demassing" of major corporations and the tendency to "functional externalization." This term refers to the growing practice of larger companies to subcontract their service functions as well as many support activities to outside specialists.

## Youth

Small businesses employ disproportionate numbers of Canada's youth. Although 52 percent of employed Canadians work in medium and large companies, these firms only provide employment to 30 percent of those under 25 years of age. Small businesses, on the other hand, account for only 48 percent of total employment but employ 70 percent of young Canadians. Young Canadians are also turning to entrepreneurship and new business start-ups as a viable alternative to traditional employment and, in some cases, economic inactivity.



## **Births, Deaths, Contractions and Expansions of Small Businesses**

New corporations approximate 15 percent of the number of corporations on record for an immediately previous period. This growth rate is exceptionally high when compared with, for example, the United States and Europe. Two new corporations are started for each one that ceases business or is discontinued, yielding a net increase of 7.5 percent in the number of firms.

During 1985, some five percent more businesses were formed than were closed. Business deaths were at a record low of 5.8 percent across Canada compared to 7.4 percent in 1984. Ontario's performance led the nation. For firms employing fewer than five employees, the 65.4 percent growth in employment between 1978 and 1982 was more a result of births and deaths than expansion and contraction of firms. Of the 400,167 net jobs created in 1982 by firms with fewer than five employees, 402,291 jobs were the result of new businesses and 64,549 jobs were created by the expansion of existing firms. Death or contraction of firms caused the loss of 180,491 and 86,182 jobs respectively. The closure of firms with more than five employees caused the loss of more jobs than were created by new start-ups, but the expansion of existing firms caused a net increase in employment.

## **Demographics of Small Businesses and Their Owners**

In Ontario, 77 percent of the new business owners are males, 23 percent are females; 48.4 percent of the owners are between 30 and 50 years old, only 6.1 percent are over 50 and the rest, 45.5 percent, are under 30.

Forty percent of male and 43 percent of female new business owners in Ontario have high school education, and 32 percent of women and 38 percent of men starting new businesses have completed a university level education. Also, the parents of female small business owners — particularly their fathers — are more highly educated than the general populace. The majority of female small business owners come from middle class families and have university degrees.

A recent Canadian study found that nearly 60 percent of inventor/entrepreneurs and founders of technologically based companies had university degrees and that most of them had assumed managerial roles in large corporations after graduating, the majority starting their businesses between the ages of 35 and 40. They tended to establish new businesses in fields in which they had previous experience.

## **The Franchising Phenomenon**

Franchising is leading the expansion of the small business sector. Estimated total sales of Canadian franchised units in 1985 was nearly \$50 billion — over one third of total Canadian retail sales. Between 1981 and 1984, franchises averaged annual sales growth of 15 percent compared to 7.7 percent for the retail sales sector as a whole and total GNP growth of 7.4 percent. Fifty-three percent of all franchise units and 47 percent of franchised sales are located in Ontario. Quebec ranks next with 13 percent and 27 percent respectively. Sixty-one percent of all franchisors' head offices are located in Ontario, with B.C. claiming the next largest proportion of head offices with 13 percent.

A sample of franchisors accounting for 10 percent of Canadian franchise sales expect revenues to increase by a further 50 percent between 1985 and 1989 compared to a projected 35 percent increase for the total retail sector and a 28 percent growth for total GNP during the same period.

## **Women Small Business Owners**

Female owners of small businesses tend to avoid those sectors that have traditionally been male-dominated, such as manufacturing, choosing instead the service sector. The service sector is favored by 66.1 percent of female owners of new businesses; 29.8 percent start retail firms and 4.1 percent start manufacturing businesses. Women are less likely to start service businesses and more likely to start retail businesses than are men.

## **Profitability of Small Businesses**

While the smaller firms create the majority of new jobs, their financial results are not commensurate. Almost 60 percent of small firms fall outside "normal" rates of return on assets (0 to 16 percent), while only 23 percent of large firms do so.

A contributing factor to the poor profit performance of the small business sector has been the rising level and cost of debt. The interest burden (calculated as interest/profit before tax) has grown for companies of all sizes. From 1979 to 1984, the interest burden for large companies grew from 20 percent to 42 percent. However, among small and medium sized firms, the interest burden grew from 35 percent to 62 percent during the same period. The interest burden of small firms has been some 50 percent higher than the large company experience, but their profits have only been one-fifth and their profit margins one-third of those of the large firms.

## Financing Small Businesses

The structure of small firms' balance sheets is far more likely to be characterized by short term liabilities than is that of larger companies. Smallest firms have a ratio of 55 percent liabilities to 45 percent equity while large firms have a ratio of 41 percent liabilities to 59 percent equity. These balances between liabilities and equity are aggravated by the relationship between short and long term debt. Small firms carry 41 percent short term and 14 percent long term debt whereas larger corporations have only 19 percent of their financing in short term debt.

Of the estimated 750,000 small businesses in Canada, 86.2 percent use a chartered bank as their primary source of financing and 78.1 percent bank with one of the "big five." At the end of the third quarter of 1985, the chartered banks reported \$15.9 billion in loans outstanding to small businesses (an increase of \$2 billion or 13 percent since 1982). Government guaranteed loans made up about 10 percent of the banks' small business loan portfolio. Small business and the major banks enjoy a relationship that is very important to both parties; indeed, loans to small business represent almost 25 percent of the banks' total lending portfolio.

The average start-up funding of new firms in Ontario is \$25,000, and personal investment accounts for 68 percent of this amount for incorporated owners and 73 percent for unincorporated owners. The owners of incorporated firms invest more in their new businesses than the owners of unincorporated ones.

Nearly half of the owners of firms have no need of additional financing and two-fifths of owners need additional capital and are successful in obtaining it while just over one in 10 need additional funding and fail to obtain it.

## Government Financing Programs

Ontario's Small Business Development Corporation (S.B.D.C.) program is well received by participants and is lauded by major small business organizations. An important contributing factor to its success is the efficient administration by the Ministry of Revenue. Ontario's example has encouraged the establishment of S.B.D.C. programs in several other provincial jurisdictions.

The program could be strengthened by greater access to direct equity investment if the minimum capitalization levels were reduced from \$100,000 to \$50,000 across the board.

Further benefits might be achieved by broadening the eligibility to include the service sector. The job creating power of the small service

companies is evidenced by the growth of the Canadian business service sector from 23,000 firms in 1976 to about 42,000 in 1982, and the proportion of new jobs these firms created was even greater. Service companies as a whole provided 55 new jobs for every million dollars of new sales compared to 70 in retail trade and 28 in manufacturing. This sector represents a strong opportunity for the government to encourage job creation in Ontario.

The average amount borrowed by each *Small Business Loans Act* applicant has risen from \$8,909 in 1961 to \$26,766 in 1983, and the number of borrowers has grown from 8,368 to 25,820 over the same period.

Forty percent of loans made under the aegis of the *Small Business Loans Act* are made to start-up companies compared to only 19 percent of regular high-risk company bank loans. The S.B.L.A. program results in a significant volume of term loans to small business that would not have been made if the program had not existed. As many as 50 percent of all S.B.L.A. borrowers may have obtained other financing to supplement their S.B.L.A. loans. Many loan recipients are young firms or firms with new owners, less experienced management or firms unable to offer high levels of collateral support. S.B.L.A. recipients reduce their borrowing costs by an average of between 75 and 112 basis points enabling small businesses to obtain extended loan repayment terms.

The Ontario government has recently introduced a new program, the New Ventures program, which will guarantee loans of up to \$15,000 to small businesses from private sector lenders.

The deregulation of the securities and loan and trust industries, along with increased flexibility for pension fund operators, may provide even more financing opportunities for existing and prospective small business owners.

## Developing Management Skills

Financial assistance provided by the government in Ontario is complemented by a wide variety of activities addressing the needs of small business owners for improved management skills and information.

Federal services are provided on a fee-for-service basis directly through the Federal Business Development Bank (FBDB) and its wide network of CASE (Counselling Assistance to Small Enterprise) counsellors across the province.

Provincial services focus on the new small business or the individual about to start. Stressing basic planning skills on the understanding that better preparation will lead to greater success, the Ministry of



Industry, Trade and Technology's Small Business Branch, in co-operation with 18 Domestic Field Offices across Ontario, conducts more than 200 seminars per year, distributes more than 100,000 pieces of self-help literature, directly counsels new and established small business and subsidizes the delivery of advisory services by 30 local agencies.

The increasing demand for assistance in new business planning and management skills development is reflected in the attendance of more than 5,000 individuals at provincially sponsored seminars in 1985, the increase in enquiries of MITT's Small Business Hotline to an annual rate of 85,000 and the voluntary registration of more than 16,000 individuals across Ontario as advisory service clients of the Small Business Branch.

### **Small Business and Government Policy**

The federal government has recognized that "... small business is the engine of economic growth." Statistics Canada recently estimated that between 1974 and 1984, the small business sector accounted for 82 percent of new job creation in Ontario, large companies accounted for 17 percent of job creation and medium sized firms made up 11 percent of the gain in net new jobs. Small business in Ontario accounted for approximately 48 percent of all private sector employment in 1982.

The employment effects obtained by stimulating small business industries are 70 percent greater than those that result from the stimulation of larger companies. An important policy objective of the Ontario government is the fostering of a climate that will be sympathetic to the creation of start-up opportunities for women and young persons wishing to start new businesses.

In the area of public policy action, it is estimated that in 1985, the Small Business Branch of the Ministry of Industry, Trade and Technology identified and advocated on issues that will have beneficial effects on small business in Ontario worth over \$500 million over the next four years.

### **Regulation and Deregulation**

Twenty Ontario ministries have either a supportive or regulatory relationship with small business in the province; 27 federal departments and agencies tax, license, regulate or assist these firms; municipal government agencies and departments add a further level of government interference to the small business sector.

Nearly half of a recently surveyed sample of newly established

small businesses in Ontario ranked "government paperwork" as their number two problem (behind "profitability" [60 percent] and ahead of "finding customers" [45 percent]). Paperwork was the number one issue for all recently registered small business owners who employed staff, with 58 percent of them citing this as a major concern. While recently incorporated firms in Ontario spend 10 hours a week filling out government forms (7.5 hours in unincorporated firms), only 2.3 hours is devoted to this chore by the owners, the balance being undertaken by employees.

In 95 percent of cases, small businesses complied with economic regulations, initially absorbing the costs of compliance. Only 25 percent pass these costs on to their customers. Between one quarter and three quarters of the costs are passed on by 15 percent of the small businesses while 10 percent discontinue or avoid the line of business affected.



# 2 Introduction

## 2.1 *The Environment for Small Business*

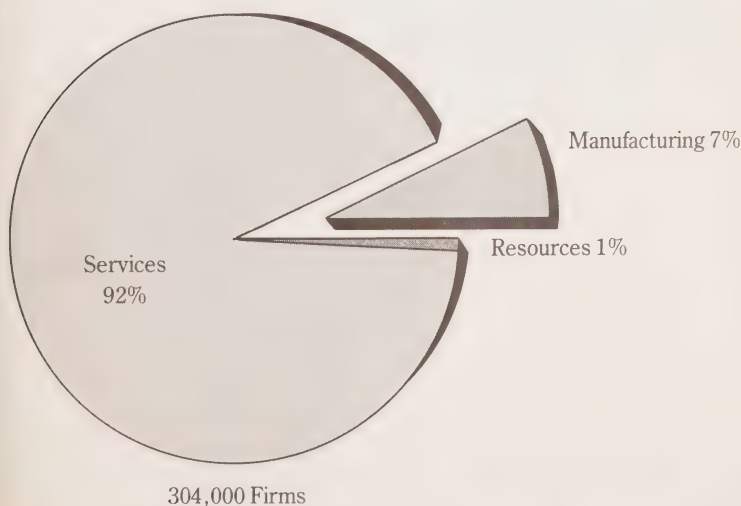
Small business maintains its momentum even when the economy falters. Since small firms are often closer to the market and more flexible, they can respond quickly to changing market and economic conditions and, as a result, they are often the leaders in innovation.

Small businesses facilitate the structural shifts necessary in cost-push and demand-pull inflationary market conditions by adapting their cost structures and meeting changing consumer demands more rapidly than large companies. Their weak market positions and their lower levels of capitalization make these flexibilities an imperative for their survival.

The growth of small business in Canada can be seen in Tables 2.1.1 to 2.1.5.

There are 304,000 small businesses in Ontario, 92 percent of them in the service sector, seven percent in manufacturing and one percent in natural resources. These small businesses account for 98 percent of all companies and 50 percent of private sector employment in Ontario. This is shown graphically in Chart 2.1.1.

**Chart 2.1.1** *Small Business in Ontario by Sector, 1985*



**Table 2.1.1** *Canadian Small Businesses by Annual Sales, 1972-1980<sup>1</sup>*

Annual Sales \$(000s)	Number of Businesses			
	1972	1974	1976	1980
0-50	288,752	332,381	314,246	344,721
50-250	164,548	187,831	217,962	240,602
250-2,000	68,830	78,765	95,799	114,958
over 2,000	13,443	15,070	18,416	23,310
<b>Total</b>	<b>535,573</b>	<b>614,047</b>	<b>646,423</b>	<b>723,591</b>
				<b>775,663</b>

**Table 2.1.2** *Canadian Small Businesses by Annual Sales, 1972-1980<sup>2</sup>*

Annual Sales \$(000s)	Sales — Millions of Current Dollars			
	1972	1974	1976	1980
0-50	4,258.9	6,379.4	6,489.6	7,204.2
50-250	14,131.9	21,455.6	25,171.8	27,994.0
250-2,000	32,910.0	49,995.2	60,320.0	73,605.4
over 2,000	142,287.4	216,344.5	283,614.2	380,729.4
<b>Total</b>	<b>193,588.2</b>	<b>294,173.4</b>	<b>375,595.6</b>	<b>489,533.0</b>
				<b>581,895.2</b>

**Table 2.1.3** *Distribution of Firms by Size of Workforce (1980)*<sup>3</sup>

	Number of Employees			
	Total	50	50-499	500 +
Canada	6,870,548	2,571,962	1,911,556	2,387,030
Ontario	2,771,948	937,596	791,960	1,042,392

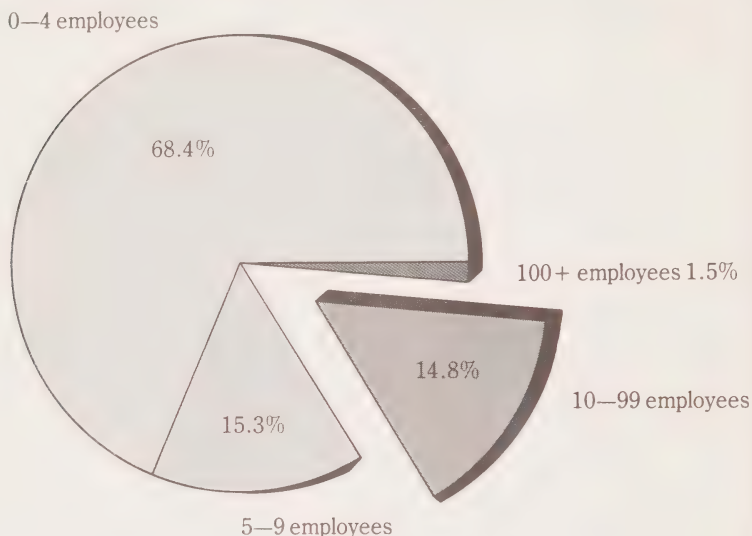
**Table 2.1.4** *Small Businesses in Ontario by Firm Size, 1972-1980*<sup>4</sup>

Annual sales \$(000s)	Number of Businesses			
	1972	1974	1976	1980
0-50	103,281	120,386	114,766	127,598
50-250	59,988	69,834	79,276	84,010
250-2,000	25,626	29,974	34,689	41,596
<b>Total</b>	<b>188,895</b>	<b>220,194</b>	<b>228,731</b>	<b>253,204</b>
				<b>243,269</b>

**Table 2.1.5** *Total Annual Sales of Small Businesses in Ontario by Firm Size, 1972-1980*<sup>5</sup>

Annual Sales \$(000s)	Sales — Millions of Dollars			
	1972	1974	1976	1980
0-50	1,571.9	2,323.6	2,328.4	2,632.0
50-250	5,265.9	7,946.9	9,137.4	9,721.5
250-2,000	12,732.7	19,248.5	22,063.4	26,968.9
<b>Total</b>	<b>19,570.5</b>	<b>29,519.0</b>	<b>33,529.2</b>	<b>39,322.4</b>
				<b>41,813.7</b>

**Chart 2.1.2** *Ontario Businesses by Number of Employees, 1985*



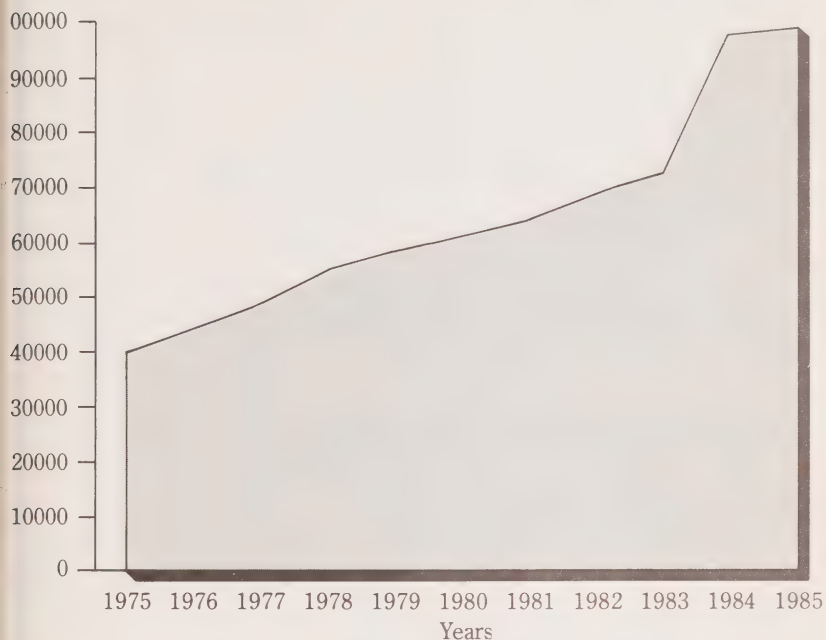
Ontario had 308,759 registered businesses in 1985

Chart 2.1.2 depicts the distribution of Ontario businesses by number of employees in 1985. The small business section, defined as those with fewer than 100 employees, accounted for over 98 percent of firms.

In 1985, Ontarians formed 99,000 new businesses of which 33,800 were firms hiring employees. They created over 180,000 new job opportunities and generated \$500 million in new investment. Chart 2.1.3 shows the formation of new companies from 1975 to 1985.

The job creation capability of small business has become a dynamic social and economic instrument, and owners and operators of small businesses are more a mass movement than a passing phenomenon. This first edition of the *Annual Report on Small Business in Ontario* seeks to build on the current momentum of public awareness and support for innovators and entrepreneurs in particular, and the small business community in general, throughout the province. It is hoped that decision makers, policy makers and researchers will find the *Annual Report on Small Business in Ontario* a useful source of current data and of the latest knowledge and thinking concerning small business performance in Ontario.

**Chart 2.1.3** *New Business Formations, Ontario, 1975-1985*



### **Ontario's Business Climate**

The year 1985 represented the fourth consecutive year of economic expansion for Canada. More jobs, stable inflation rates and lower interest rates have helped to propel the strongest consumer boom in 10 years. Lower rates for auto financing and postponed purchases from the early eighties helped the auto industry to post sales of approximately 1.1 million units. This optimism was given further support by the planned construction of major new auto manufacturing facilities in Ontario.

For similar reasons, unit housing sales enjoyed a corresponding resurgence. Consumer borrowing, household credit and residential mortgage levels were well below the record peaks reached in the late 1970s, and an increasing level of new business start-ups was fuelled by the higher personal savings available. With gross domestic output up .4 percent for the year and a more restrained but nevertheless healthy precast of three percent growth for 1986, small business was presented with a positive economic environment for the following year. Table 2.1.6 compares the Ontario, Canadian and U.S. economies over

**Table 2.1.6** *Ontario, Canadian and U.S. Economic Performance, 1984-1986*<sup>a</sup>

	Ontario		Canada		U.S.	
	1984	1985	1984	1985	1984	1985
Real growth	6.5	4.5	5.0	4.0	6.8	2.3
Inflation	4.4	4.1	4.4	4.1	4.3	3.6
Unemployment rate	9.1	8.2	11.3	10.7	7.5	7.2
Year-end prime rate	11.25	10.0	11.25	10.0	10.75	9.5

**Table 2.1.7** *How Ontarians Perceive the Climate for Starting a New Business in Ontario*<sup>7</sup>

	Region					
	Total	Metro Toronto	East Ont.	Central East	Central West	North Ont.
Very good	39	39	41	39	45	32
Somewhat good	44	44	46	45	44	43
Somewhat poor	8	7	6	8	7	14
Very poor	2	1	2	3	1	4
Don't know	7	9	6	6	4	7



the 1984 to 1986 period, while Table 2.1.7 expresses how Ontarians feel about the business climate.

## 2.2 *The Definition of Small Business*

Researchers, academics, policy makers and others interested in the field of small business have long been plagued by the continuing lack of a universally recognized definition of "small business." The problem of definition is further complicated when considering the eligibility of small firms wishing to access government programs. For example, under the *Small Business Loans Act*, a small business loan is only available to those companies enjoying revenues of less than \$2 million, but lower corporation tax rates are available to businesses on their first \$200,000 in annual taxable income where their cumulative deduction account balance is under \$1 million.

For the purposes of statistical analysis, in Canada and many other countries, business size is usually defined by measuring the value of assets, annual pre-tax income, annual sales or the number of employees, the latter two being the most frequently cited. The Small Business Branch of the Ontario Ministry of Industry, Trade and Technology describes small businesses as all those employing fewer than 100 workers.

Since 1977, the Small Business Secretariat, in conjunction with Statistics Canada, has used the format in Table 2.2.1 for the purposes of statistical analysis of Canadian businesses.

**Table 2.2.1** *Small Business Definition by Sales Volume*

Firm class	Annual sales (\$ millions)
Small	less than 2
Medium	2 to 20
Large	over 20

Where employment levels are used to define business size, the difference between the more labour intensive service sector and the more capital intensive manufacturing sector is often recognized, as shown by the definition in Table 2.2.2.

**Table 2.2.2** *Small Business Definition by Number of Employees*

Sector	Firm class	Number of employees
Manufacturing	Small	fewer than 100
	Medium	100-300
	Large	more than 300
Service	Small	fewer than 50
	Medium	50-200
	Large	over 200

The U.S. Small Business Administration classifies small firms as those employing fewer than 500 people.

The definition debate will be resolved elsewhere, but it is raised here to alert the reader to the varying definitions of small business used. The reader is advised to ascertain which benchmark is being used when references are made to firm size and whenever charts or tables are presented.

Another definitional issue arises out of the tendency to confuse the term "entrepreneur" with "small business owner," the two often being used interchangeably. Small business is defined above. An "entrepreneur" may be considered to be "... a person who combines risk, innovation, leadership, artistry, skill and craftsmanship into a foundation upon which to build and motivate a team. This group of human beings, sometimes previously unknown to each other, evolves into a new enterprise."<sup>8</sup>

Many small business owners have no pretensions to great personal achievement, innovation or creativity, all essential characteristics of the entrepreneur. They may simply prefer to work for themselves, or they may have been unsuccessful in finding an alternative, suitable career, and yet others may prefer the lifestyle offered by self-employment. Sections 5.3 and 7.2 elaborate on some of these reasons. In Section 7.2, for example, research suggests that some women start new businesses in order to escape from what they perceive to be their clerical ghettos. This may or may not result in the creation of an entrepreneurial enterprise, but entrepreneurship in itself may not be the driving force behind the firm's inception.

Joseph Schumpeter, the celebrated Austrian economist, who spent much of his academic career at Harvard and whose research helped to popularize our modern concept of the entrepreneur, pointed out that entrepreneurs differentiate themselves from others by “carrying out new combinations” of productive forces or enterprises. The entrepreneur, Schumpeter argued, functions as an agent of change in an otherwise repetitive social economy. Entrepreneurs, he surmised, did things that were often already being done in new and innovative ways by defining (1) new products or services, (2) new methods of production, (3) new markets, (4) new sources of supply or (5) new forms of organization.<sup>9</sup>

Thus, when we look at small business owners, we are not necessarily studying entrepreneurs (nor inventors, who fall into yet another category).

#### Chapter Notes

*Small Business Statistics*, Statistics Canada.

ibid.

*A Study of Job Creation in Canada, 1976-1984*, Department of Regional Industrial Expansion, 1986.

*Statistical Profile of Small Business in Canada, 1983*, Small Business Secretariat, Department of Regional Industrial Expansion.

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*The Ontario Budget 1985*, Ministry of Treasury and Economics.

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Joseph A. Schumpeter, *The Theory of Economic Development*, England, Oxford University Press, 1974, p.66.



# 3 The Job Creation Record of Small Business

## 3.1 *Job Creation in the United States*

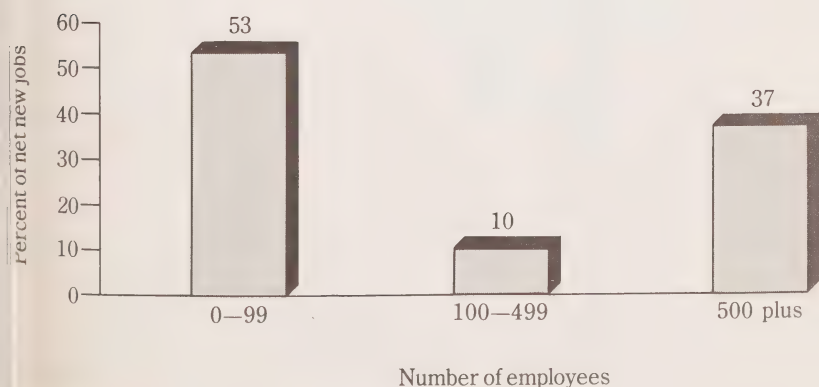
The remarkable transformation of the United States from a managerial to an entrepreneurial economy is being repeated in Canada. It is resulting in record levels of job creation in both countries.

Between 1970 and 1980, small businesses in the United States created 20 million new jobs. Between 1981 and 1984, three million jobs were lost by the "Fortune 500" companies, while firms that were 10 years old or less contributed 750,000 new jobs and employment for one million additional people. The additional 250,000 jobs are a result of a multiplier or ripple effect. Excluding the agricultural sector, some 6.4 million jobs were created in the U.S. economy between 1982 and 1984.

The dynamic changes of the period 1976 to 1982 are shown in Table 3.1.1 and in Chart 3.1.1. Although large businesses increased their workforces by 5.3 percent in this period, the small businesses outpaced them two to one by adding 11.4 percent more jobs.<sup>1</sup>

Our experience in Canada parallels that of the United States, where the majority of net new jobs were created by firms employing fewer than 50 people between 1976 and 1982.

**Chart 3.1.1** *Net Job Creation by Size of Firm, United States, 1976-1982<sup>2</sup>*



**Table 3.1.1** *Change in U.S. Employment by Sector and Size of Workforce, 1976-1982<sup>3</sup>*

	Number of Employees (000s)				
	Total	< 20	20-99	100-499	500 +
U.S.	11,871.0	4,574.7	1,676.4	1,160.6	4,459.3
Small business dominated	8,608.0	3,141.3	1,110.8	925.8	3,430.4
Agriculture	42.5	89.7	-15.2	-12.2	-19.7
Construction	359.0	486.7	-24.0	-92.9	-10.7
Wholesale	756.7	513.0	101.6	77.9	64.3
Retail	2,192.3	490.2	327.0	262.6	1,112.5
Services	5,257.5	1,561.7	721.4	690.4	2,284.0



### 3.2 *Job Creation in Canada*

The creation of employment that adds dignity to the individual and value to the community has long been a social and economic imperium of Canadian policy makers at every level. The White Paper on Employment and Income in April, 1945, referred to the aspiration of providing a "... high and stable level of employment and income" for Canadians. In those days, nearly five million of Canada's 12 million citizens were employed, compared to 3.7 million prior to the war.

Between 1945 and 1955, unemployment averaged 3.2 percent, moving up to an average of five percent in the years preceding the oil crisis of 1973. Except for 1958, when employment shrank through the loss of 25,000 jobs, the numbers of Canadians employed grew every year until the 1981 recession. Canada's job creation record exceeded that of any other industrial nation between 1972 and 1982, with the creation of 2.3 million new jobs, a cumulative increase of 27 percent.

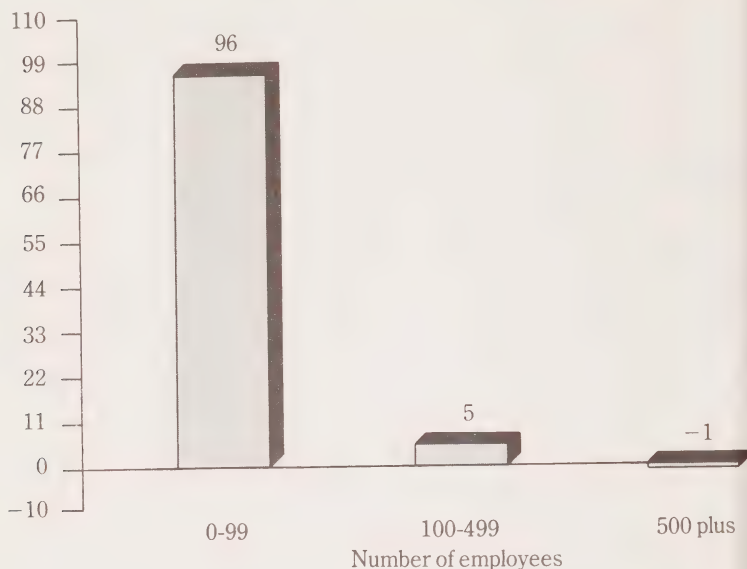
The 1981 recession heralded the end of this enviable record and a painful reappraisal of conventional wisdom concerning the sources of employment and job creation. In 1982 alone, 350,000 jobs were lost. The Keynesian pump-priming policies and programs previously used so successfully by federal and provincial governments appeared to be ineffectual.

The federal government has recognized that "... small business is the engine of economic growth."<sup>4</sup> The Canadian small business sector is often defined as those firms with up to \$2 million in annual sales and/or employing fewer than 50 employees. By this definition, some 750,000 small businesses account for 96 percent of all Canadian firms and, although the majority of them employ fewer than 20 people, they account for 26 percent of all employment. Between 1978 and 1984, they accounted for 96 percent of the net new job creation across the country. The 1978 to 1984 period is highlighted in Chart 3.2.1.

This is a worldwide trend that has impacted strongly on Canada. Between 1978 and 1982, firms with fewer than five employees accounted for 96.5 percent of all jobs created in the private sector.<sup>5</sup> Start-up companies created 40 percent of all new job opportunities in Canada from 1978 to 1982, demonstrating the crucial actual and potential impact they make on wealth creation and the reduction of current unemployment levels.

For Canada's youth, small businesses are a rich source of job opportunities. Although 52 percent of employed Canadians work in medium and large companies, these firms only provide employment to

**Chart 3.2.1** *Net Job Creation by Size of Firm, Canada, 1978-1984*<sup>6</sup>

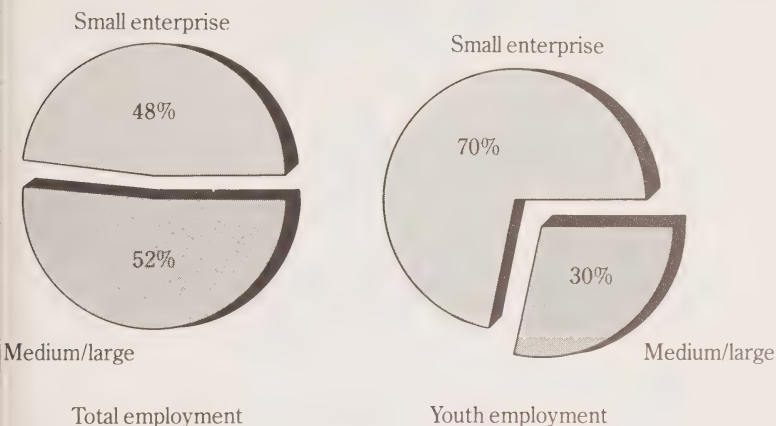


30 percent of those under 25 years of age. Small businesses, on the other hand, account for only 48 percent of total employment but employ 70 percent of young Canadians. More and more young Canadians are turning to entrepreneurship and new business start-ups as a viable alternative to traditional employment and, in some cases, economic inactivity. Chart 3.2.2 shows where Ontario's youth is employed.

The service industries produced the majority of the new jobs during the years 1978 to 1982, with business services and community services producing 16.6 percent and 14.8 percent of the new jobs respectively. Firms with fewer than five employees experienced employment increases of 65.4 percent, while firms with 20 to fewer than 100 employees and 100 to fewer than 200 employees experienced declines in the levels of paid employment of 1.7 percent and 0.5 percent respectively.

Notable employment growth took place in public administration, mining and manufacturing firms with fewer than five employees, where increases in employment were experienced of 206.4 percent, 182.0 percent and 110.4 percent respectively. Although the manufacturing sector experienced a decline in the level of paid employment of 3.6 percent during this period, companies with fewer than 20 employees regis-

**Chart 3.2.2** *Jobs for Youth in Ontario, 1984 (percent)*<sup>7</sup>



ered healthy gains. The proportion of the total employment in firms with fewer than five employees grew from 7.8 percent in 1982 to 10.9 percent in 1984. Tables 3.2.1 and 3.2.2 look at both net employment change and percentage share of job creation by size of company.

Firms with fewer than 20 employees created 53.5 percent of all new jobs in Canada between 1982 and 1984. Once again, the business service sector was a major job generator, with firms with fewer than five employees accounting for 17.1 percent of the new jobs created and similar sized retail companies creating 12.3 percent of the increase in paid employment.

The positive employment picture in small businesses continues today. A recent survey of Canadian Federation of Independent Business (CFIB) members indicates that in 1986, 25.4 percent of those surveyed planned to expand their workforces, 5.2 percent planned employment cutbacks and 64.4 percent planned to remain at current staffing levels.<sup>8</sup>

**Table 3.2.1** *Net Employment Changes by Firm Size and by Industry, Canada, 1978-1982*<sup>10</sup>

Industry	Firm Size					
	Fewer than 5	5 to <20	20 to <100	100 to <200	200 to <500	500 or more
Primary	14,208	-1,641	-1,986	-1,238	X	X
Mining	4,510	7,359	2,177	1,800	-1,156	7,217
Manufacturing	28,503	14,392	-3,518	-16,863	-31,062	-62,892
Construction	11,732	-14,616	-12,659	-5,470	-3,310	3,511
Transportation	18,156	1,480	-449	-454	-1,450	26,277
Wholesale trade	25,318	6,299	-5,893	418	-910	-1,771
Retail trade	66,356	18,817	4,879	-5,301	13,760	62,966
Finance	19,313	1,104	-307	6,635	8,237	17,387
Community services	44,093	21,564	10,831	11,292	45,569	74,581
Business services	98,566	34,590	12,283	11,896	36,411	15,861
<b>Total*</b>	<b>344,185</b>	<b>97,783</b>	<b>7,959</b>	<b>4,422</b>	<b>68,968</b>	<b>142,473</b>
						<b>665,791</b>

Note: X indicates data not available due to confidentiality. \* Total includes unclassified.

TABLE 3.2.2 Percentage Share of Job Creation by Firm Size and by Industry, Private Sector, Canada, 1970-1992

Industry	Firm Size						All sizes
	Fewer than 5	5 to <20	20 to <100	100 to <200	200 to <500	500 or more	
Mining	2.1	-0.2	-0.3	-0.2	X	X	1.2
Manufacturing	0.7	1.1	0.3	0.3	0.2	1.1	3.6
Construction	4.3	2.2	-0.5	-2.5	-4.7	-9.4	-10.7
Transportation	1.8	-2.2	-1.9	-0.8	-0.5	0.5	-3.1
Wholesale	2.7	0.2	-0.1	-0.1	-0.2	3.9	6.5
Retail	3.8	0.9	-0.9	0.1	-0.1	-0.3	3.5
Finance	10.0	2.8	0.7	-0.8	2.1	9.5	24.3
Community services	2.9	0.2	0.0	1.0	1.2	2.6	7.9
Business services	6.6	3.2	1.6	1.7	6.8	11.2	31.2
Public administration	14.8	5.2	1.8	1.8	5.5	2.4	31.5
<b>Total</b>	<b>51.7</b>	<b>14.7</b>	<b>1.2</b>	<b>0.7</b>	<b>10.4</b>	<b>21.4</b>	<b>100.0</b>

Note: X indicates data not available due to confidentiality. Total includes unclassified.



### 3.3 *Job Creation in Ontario*

In 1982, Ontario enjoyed 38.9 percent of Canada's employment. In that year, Ontario's private sector employment growth rates did not equal the national average, as shown in Table 3.3.1.<sup>9</sup> Ontario's manufacturing sector is proportionately larger than other provinces, making it more susceptible to economic vicissitudes, and the relative size and previous vigour of Ontario's economy made the continuance of sizeable year-on-year employment gains difficult to maintain.

Though Ontario's growth in employment from 1978 through 1982 was marginally below the country's average, this picture has since improved. A study of CFIB members suggests that the flow of jobs from Ontario to the West has ended. The highest proportion of those small business firms expecting to increase their employment in 1986 was recorded by Ontario (28 percent), compared to Alberta (23.1 percent) and British Columbia (22 percent). The national average was 25.4 percent.

Ontario also led in the proportion of CFIB members planning increases in capital investment (35.7 percent) and investment in working capital (32.8 percent). The national averages were 31.6 percent and 29 percent respectively.<sup>14</sup>

The service sector was a particularly strong performer. It increased its share of Ontario's net domestic product from 50 percent in 1972 to 62 percent in 1983 and generated 40 percent of all of the new jobs created in Ontario from 1974 to 1982. From 1974 to 1982, Ontario made the largest contribution to new service sector jobs in Canada (26 percent), followed by Alberta (25.6 percent). Firms that provide services to other businesses posted an employment growth rate of 67.8 percent over the last 10 years (more than three times the national average of 19.4 percent).

This continuing shift towards an information and services based economy is a trend that is even more advanced in Ontario, as can be seen in Table 3.3.2. Table 3.3.3 points out the hiring intentions of firms starting up in Ontario by sector.

## Firm Size

	Fewer than 5	5 to <20	20 to <100	100 to <200	200 to <500	500 or more	All sizes
Ontario	64.8	3.4	-1.1	-1.9	8.4	1.0	6.3
Canada	68.0	2.8	-3.7	-4.6	5.7	1.2	6.4

Table 3.3.2 Percentage of Net Employment Change by Industry, Canada, 1978-1982<sup>13</sup>

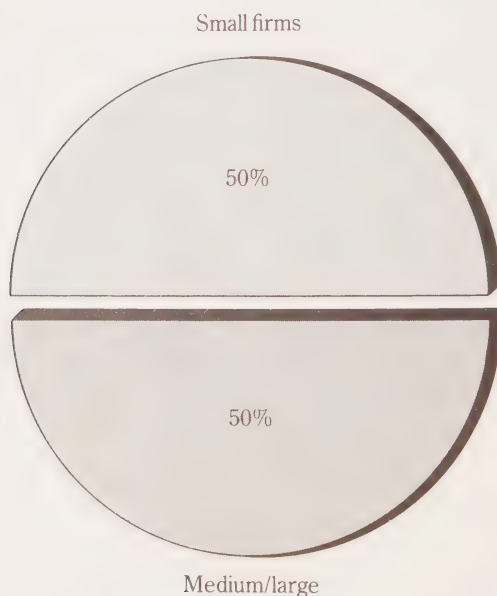
Industry	Fewer than 5	5 to 20	20 to 100	100 to 200	200 to 500	500 and more	All sizes
Primary	37.9	-7.8	-16.4	-18.7	X	X	8.9
Mining	147.4	102.2	29.5	26.6	3.7	6.1	14.0
Manufacturing	81.6	12.6	-2.2	-10.8	-6.8	-5.6	-3.5
Construction	13.6	-13.7	-16.8	-11.4	-4.0	5.8	-4.5
Transportation	69.4	3.2	-1.2	-1.4	-1.9	5.5	6.2
Wholesale	56.2	5.9	-6.2	0.6	-0.8	-2.1	4.6
Retail	48.7	8.0	3.9	-6.9	13.2	15.5	14.9
Finance	45.3	1.9	-0.8	27.0	12.4	5.4	9.5
Community services	78.0	48.5	20.5	18.2	17.7	9.6	16.7
Business services	64.6	13.5	6.5	9.5	18.5	5.7	17.5
<b>Total</b>	<b>54.3</b>	<b>9.8</b>	<b>1.0</b>	<b>0.7</b>	<b>4.9</b>	<b>3.9</b>	<b>8.2</b>

Note: Unclassified is included. X indicates data not available due to confidentiality.

**Table 3.3.3** *Expected Job Creation by New Start-ups by Sector, Ontario*

Sector	Not hiring %	Hiring %
Manufacturing	66	34
Service	70	30
Retail	61	39
<b>Total</b>	<b>68</b>	<b>32</b>

Statistics Canada recently reported that between 1978 and 1984, the small business sector accounted for 82 percent of net new job creation in Ontario, large companies accounted for seven percent of job creation and medium sized firms gained 11 percent of net new employment. Small business in Ontario accounted for approximately 50 percent of all private sector employment in 1984 (the latest year for which statistics are available — see also Section 4.2).<sup>16</sup>

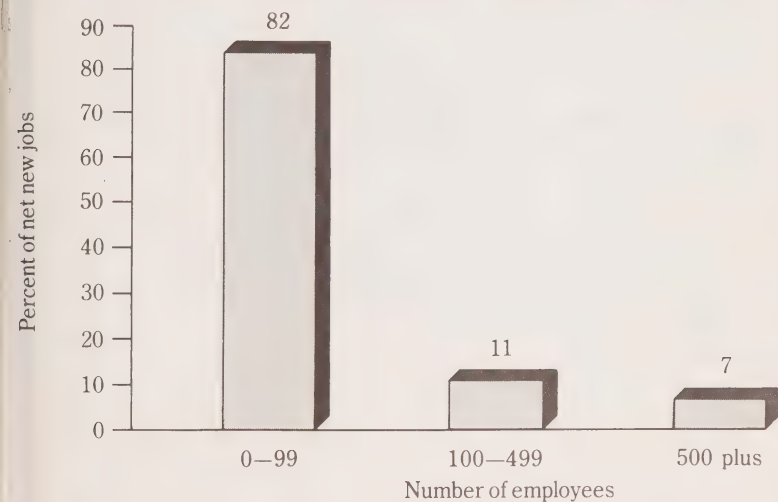
**Chart 3.3.1** *Employment by Size of Firm, Ontario, 1984<sup>17</sup>*

3,400,000 private sector jobs

Chart 3.3.1 is a graphic representation of jobs by firm size in 1984, while Chart 3.3.2 looks at job creation in Ontario for the 1978 to 1984 period and Tables 3.3.4 and 3.3.5 track employment in small business between 1982 and 1985.

Both the incorporated and unincorporated small businesses that have survived since registration show a strong capability for employment creation, and this trend is consistent over time, as can be seen in Table 3.3.6.

**Chart 3.3.2** *Net Job Creation by Size of Firm, Ontario, 1978-1984*<sup>18</sup>



**Table 3.3.4** *Average Number of Employees in Recently Registered Firms (at Start-up) in Ontario*<sup>19</sup>

	Incorporated		Unincorporated	
	#	%	#	%
At start-up	3.44		1.87	
of high...				
Number and % of women	1.59	46	0.83	44
Number and % of men	1.85	54	1.04	56
Number and % under 30	1.57	46	1.06	57
Number and % over 30	1.87	54	0.81	43
Number and % full time	2.76	80	1.43	76
Number and % part time	0.68	20	0.44	24

**Table 3.3.5** *Average Number of Employees in Recently Registered Firms in Ontario (at Present)*<sup>20</sup>

	Incorporated		Unincorporate	
	#	%	#	%
At present	7.52		3.75	
of which...				
Number and % of women	3.26	43	1.64	44
Number and % of men	4.26	57	2.11	56
Number and % under 30	3.55	47	2.19	58
Number and % over 30	3.97	53	1.56	42
Number and % full time	5.96	79	2.43	65
Number and % part time	1.56	21	1.32	35

**Table 3.3.6** *Average Number of Employees in Firms Registered from 1982 in Ontario*<sup>21</sup>

	Incorporated %			Unincorporated %		
	1982	1983	1984	1982	1983	1984
Number of employees at start-up	2.1	3.0	4.7	1.8	1.8	2.0
Number of employees currently	6.1	7.4	8.6	3.0	3.8	4.1



## Chapter Notes

- The U.S. Small Business Administration, Office of Advocacy, defines a business sector as small business dominated where 60 percent or more of the sales or employment are accounted for by firms with fewer than 500 employees.
- The U.S. Small Business Administration, *The State of Small Business*, May, 1985.
- Id.
- "Government Extends Financing Support to Small Business," *News Release*, Department of Regional Industrial Expansion, January 23, 1985.
- Analysis of Job Creation Based on the Regional and Sectoral Data Base 1978-1982: Phase I: Preliminary Report*, Department of Regional Industrial Expansion.
- Ministry of Industry, Trade and Technology, internal research based on 1984 Statistics Canada data.
- Id.
- CIB Survey of Business Conditions: THE HARD FACTS*, Canadian Federation of Independent Business, January, 1986.
- Analysis of Job Creation...Regional and Sectoral*, Op. Cit.
- Analysis of Job Creation Based on the T4 Employment Estimates Data Base 1978-1982*, Department of Regional Industrial Expansion.
- Id.
- Analysis of Job Creation...Regional and Sectoral*, Op. Cit.
- Analysis of Job Creation...T4*, Op. Cit.
- CIB, Op. Cit.
- Ministry of Industry, Trade and Technology, internal research undertaken at the Companies Branch of the Ministry of Consumer and Commercial Relations.
- Analysis of Job Creation...Regional and Sectoral*, Op. Cit.
- Ministry of Industry, Trade and Technology, internal research based on 1984 Statistics Canada data.
- Id.
- Ministry of Industry, Trade and Technology, internally commissioned research by Creative Research Group.
- Id.
- Id.



# 4 The Growth of Small Business

## 4.1 Analysis by Sector — The 10 Year Trend

### The Manufacturing Sector

Of the 724,000 businesses registered in Canada in 1978, only 45,000 were in the manufacturing sector. More than 39,000 (87 percent of the total) enjoyed annual sales of less than \$2 million and were therefore classified as small businesses, and the 5,000 manufacturers that attained a sales volume of more than \$2 million but less than \$20 million were classified as medium sized (11 percent of the total). Just two percent of Canadian manufacturing companies were classified as large companies, being in an annual sales class of more than \$20 million.

As Table 4.1.1 demonstrates, the total number of manufacturing establishments grew by 12 percent between 1971 and 1980, with industries such as rubber and plastics, metal fabricating, machinery, transportation equipment, electrical products and non-metallic minerals showing an increase of 20 percent or more. The food and beverage, textile, clothing, wood and chemical industries grew at rates of less than 10 percent.<sup>1</sup>

During the 1970s, the share of total manufacturing employment accounted for by small firms rose from 18 percent to 18.5 percent while the share claimed by medium sized manufacturing companies declined from 27.3 percent to 26.7 percent during the same period. This growth of small firms occurred in two ways. In some sectors, such as printing, metal fabricating and machinery, where sector-wide growth has occurred, the smaller companies have grown even faster than the larger ones. In others, such as the leather, textile and electrical products industries, where sector-wide declines have occurred, the small firms' survival rate has been superior to that of the larger firms, resulting in their decline being relatively less severe.

Ontario accounts for 34 percent of all manufacturing establishments in Canada, over 60 percent of Canada's manufacturing sales and 52 percent of Canadian employment in manufacturing.

One recent study showed that while employment in manufacturers existing in 1971 fell 3.6 percent during the following 10 years, manufacturing companies with between 10 and 100 employees increased their employment by 0.9 percent, and that these small companies were the only group to increase employment over that period.<sup>2</sup>

**Table 4.1.1** *Number of Manufacturing Establishments by Size of Establishment<sup>3</sup>*

Group	Number of establishments in 1980			Change since 1971 %		
	Small	Medium	Large	Small	Medium	Large
Food and beverages	3,727	695	245	-21	2	17
Rubber and plastics	736	190	54	55	44	35
Leather	296	108	27	-4	20	4
Textiles	703	155	90	7	4	3
Knitting mills	168	86	27	9	18	7
Clothing	1,605	457	81	1	10	13
Wood industries	2,809	424	130	4	16	50
Furniture	2,097	235	37	9	17	16
Paper and allied	379	235	150	28	26	-5
Printing & publishing	3,882	303	77	17	13	25
Primary metals	240	124	96	8	13	34
Metal fabricating	4,366	595	125	24	19	4
Machinery	1,175	320	106	81	73	36
Transportation equipment	955	216	131	40	33	13
Electrical products	701	253	138	67	21	3
Non-metallic minerals	1,345	175	52	24	2	11
Chemicals	880	233	99	6	8	17
Misc. manufacturing	2,522	225	51	18	13	0
<b>Total</b>	<b>28,586</b>	<b>5,029</b>	<b>1,716</b>	<b>11</b>	<b>18</b>	<b>14</b>
						<b>12</b>



## The Tertiary Sector

In the tertiary sector of the Canadian economy (those companies that are not members of the manufacturing or resource industries), the vast majority of firms are small businesses, being especially dominant in the service, construction and finance sectors. It is because of these demographics that small businesses have played such a pivotal role in fuelling Canada's recent economic performance. This is dramatically depicted in Table 4.1.2, which shows that nine of the 18 major tertiary groups experienced a growth rate of 30 percent or more while only one, electric, gas and water utilities, declined.

**Table 4.1.3** *Small Business in Ontario by Sector, 1985<sup>5</sup>*

	< 50 employees		< 100 employees	
	#	%	#	%
Agriculture	20,437	6.9	20,483	6.8
Forestry	1,086	.5	1,105	.4
Fishing	294	.1	295	.1
Mining	784	.3	808	.3
Manufacturing	17,469	6.0	18,793	6.2
Construction	36,711	12.3	37,016	12.2
Transportation, communication and other utilities	10,485	3.5	10,722	3.5
Trade	71,087	23.9	71,975	23.7
Finance, insurance and real estate	23,426	7.9	23,631	7.8
Community, personal and business services	116,389	39.0	117,939	39.0
<b>Total</b>	<b>298,186</b>	<b>100.0</b>	<b>302,767</b>	<b>100.0</b>

Table 4.1.3 illustrates the growing proportion of small businesses accounted for by the community, personal and business services sectors (39 percent) and the concentration of these firms in the "under-50 employees" company size.

The service group (the last seven classifications in Table 4.1.2) represented the greatest employment growth, increasing 27 percent. This sector is dominated by small businesses, which had a total employment share of 73.2 percent in 1979. The combined sector grew by 47 percent between 1976 and 1979, with the total number of service companies growing by 69 percent and the small service businesses showing a surge of 124 percent and employing 67.4 percent of all the employees for the sector as a whole.



The \$5 billion contribution to GNP provided by small service businesses amounted to 47 percent of the sector total, rising 178 percent during the five year period. Eighty percent of employment in this sector is provided by companies having less than \$2 million in annual sales.

The growth of service companies referred to earlier is confirmed once again by the rate of their formation, depicted in Table 4.1.4. Over the three years, there was a growing tendency for manufacturers to incorporate upon formation, while more retailers favoured partnerships or their newly formed ventures.

Small businesses that provide services to other businesses are one of the fastest growth sectors of the economy. In the last 10 years, the number of staff employed in these firms has grown by 67.8 percent (297,000 to 498,000).<sup>6</sup> This sector includes, among others, accounting, advertising, architecture, computer services, employment agencies, engineering and scientific services, law, management and business counselling, security and investigation and miscellaneous services to business management.

The driving force behind this phenomenon is the "demassing" of major corporations referred to earlier and the tendency to "functional externalization." This term refers to the growing practice of larger companies to subcontract their service functions as well as many support activities to outside specialists. This enables them to focus on their corporate mission by utilizing their strengths and distinctive intellectual competencies.<sup>7</sup>

While the manufacturing sector continues to grow, the size of the workforce employed in this sector is declining. This trend will accelerate as fully automated production becomes more widespread and robotic equipment the manufacturing standard. Thus the manufacturing sector will create substantial wealth in the decades ahead but account for less employment.

The labour intensive tertiary sector, on the other hand, will provide both increasing wealth and employment as the rapid introduction of affordable computer technology into these small businesses assists in the "demassing" of corporate units. This adaptation from financial capital intensiveness to "human capital" intensiveness characterizes the shift to a knowledge-based economy. More and more businesses will become based, small, family owned units that used to be parts of major corporations until they were sold to the former employees who managed them.

The tertiary sector does not possess the regional differences of presentation displayed by the manufacturing sector. The presence of tertiary sector companies generally follows the level of economic activ-

ity of each region. Exceptions are the wholesale and retail trades, which are largest in Ontario, where a larger share of consumers reside.

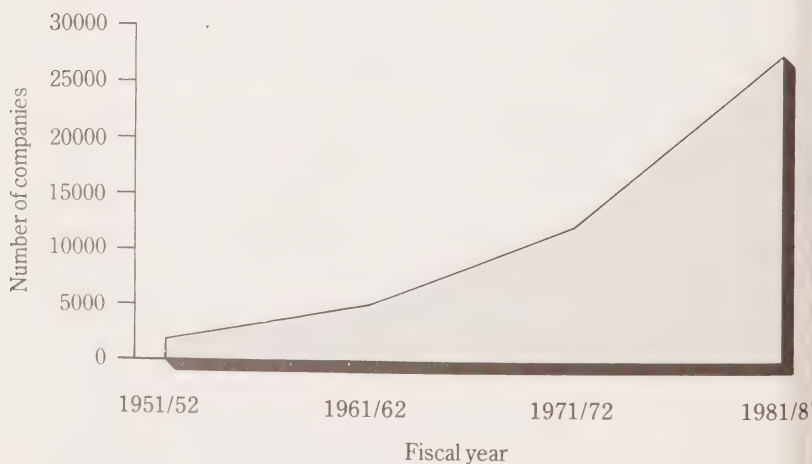
## 4.2 *Births, Deaths, Expansions and Contractions*

Job creation is a factor of the change in the size (and therefore the fortunes) of the firm. In order to lend greater understanding to the relationship between these two components, it should be pointed out that net employment changes can be caused by two main factors: growth in the number of firms or growth in the size of firms. The variation in employment caused by the number of companies can be further categorized by “birth”<sup>8</sup> and “death,”<sup>9</sup> while employment growth and decline caused by the changes in the sizes of firms can be categorized as “expansion” and “contraction.”

Data on incorporated new business starts is available back to fiscal 1951/52. As the long-term trend shows in Chart 4.2.1, Ontario has enjoyed a long period of accelerating growth in the rate of incorporated business starts.

In a three-year study of business birth and mortality rates, it was found that new corporations represented 15 percent of the number of corporations on record for the immediately previous period.<sup>10</sup> The report added that this growth rate is exceptionally high when compared with other economies such as those of the United States and Europe.

**Chart 4.2.1** *Number of Companies Incorporated Annually in Ontario, 1951/52-1981/82*<sup>11</sup>



The findings of the study show that two new corporations were started for each one that ceased business or was discontinued, yielding a net increase of 7.5 percent in the number of firms.

A recent survey estimates that during 1985, some five percent more businesses were formed than were closed. The survey suggests that business deaths were at a record low of 5.8 percent across Canada compared to 7.4 percent in 1984. According to this study, Ontario's performance led the nation, which by region posted the following closing rates for 1985 (1984 in parentheses): British Columbia and Alberta, 5.8 percent (10.3 percent); Saskatchewan and Manitoba, 5.8 percent (7.0 percent); Ontario, 5.2 percent (6.2 percent); Quebec, 5.9 percent (6.9 percent); Atlantic region, 6.3 percent (8.9 percent).<sup>12</sup>

One in nine of the discontinued firms had gone bankrupt. In 1981, 97.1 percent of bankruptcies reported balance sheet assets of less than \$250,000 and 55 percent to 65 percent of these companies had been in business for less than five years. Finally, this study reported that the greatest concentration of failure typically occurred in the third year, the frequency of failure declining progressively until the 10th year, when it became minimal but not insignificant.

Between 1978 and 1982, the change in employment levels was due less to the size of firms (contraction and expansion) than to the number of firms (births and deaths). With the exception of primary industry, the net employment change of 7.9 percent was due mostly to the change in the size of firms (7.3 percent), with the change in the number of firms playing only a minor part in this increase (0.6 percent). In manufacturing and construction, the declines in employment were due mainly to the low birth rate and high death rate of firms in these two sectors.

The interdependent relationship between changes in the size of firms and job creation can be seen from the data in Tables 4.2.1 and 4.2.2. Of special note is the contribution of small firms to job creation.

For firms employing fewer than five employees, the 65.4 percent growth in employment between 1978 and 1982 was more a result of births and deaths than expansion and contraction of firms. Of the 100,167 net new jobs created in 1982 by firms with fewer than five employees, 402,291 jobs were the result of new businesses and 64,549 jobs were created by the expansion of existing firms. Death or contraction of firms caused the loss of 180,491 and 86,182 jobs respectively. The closure of firms with more than five employees caused the loss of more jobs than were created by new start-ups, but the expansion of existing firms caused a net increase in employment.

**Table 4.2.1** *Components of Job Creation by Industry, Canada, 1978-1982<sup>13</sup>*

Industry	Changes in number of firms %			Changes in size of firms %		
	Total net change	Birth	Death	Net change	Expansion	Contraction
Primary	7.1	28.2	19.9	8.3	19.1	20.4
Mining	22.6	11.7	-5.9	5.8	32.3	-15.5
Manufacturing	-3.7	6.3	-9.1	-2.8	12.4	-13.3
Construction	-5.8	17.1	-20.9	-3.8	20.5	-22.4
Transportation	3.9	5.9	-6.2	-0.3	11.8	-7.7
Wholesale	6.0	13.2	-13.6	-0.4	20.7	-14.3
Retail	14.7	14.9	-13.1	1.8	23.1	-10.2
Finance	5.6	7.6	-9.8	-2.2	17.6	-9.8
Community services	14.8	4.2	-2.5	1.7	16.3	-3.2
Business services	16.6	21.4	-14.3	7.1	20.2	-10.6
Public administration	14.7	2.2	-1.2	1.0	18.2	-4.5

Firm size	Changes in number of firms %			Changes in size of firms %			
	Total net change	Birth	Death	Net change	Expansion	Contraction	Net change
Fewer than 5	65.4	65.7	-29.5	36.2	43.2	-14.1	29.1
5 to <20	3.3	17.0	-18.6	-1.6	21.6	-16.7	4.9
20 to <100	-1.7	10.6	-16.2	-5.6	18.8	-14.7	4.1
100 to <200	-0.4	6.6	-12.3	-5.7	17.4	-12.2	5.2
200 to <500	8.4	5.7	-8.8	- 3.1	21.9	-10.5	11.4
More than 500	4.6	1.8	-2.4	-0.6	11.9	-6.7	5.2
Total	7.9	9.7	9.15	0.6	17.4	10.1	7.3

## Chapter Notes

- <sup>1</sup>Except where noted, the definitions of size used in this section are those used in the Census of Manufacturers — small: between one and 49 employees; medium: between 50 and 199 employees; and large: more than 200 employees.
- <sup>2</sup>*Tracking Study of Small Manufacturing Establishments in Canada, 1971-1979*, Federal Business Development Bank.
- <sup>3</sup>Ibid.
- <sup>4</sup>*An Analysis of the Overall Contribution of Small Business to Economic Activity*, Small Business Secretariat, November, 1982, p. 44.
- <sup>5</sup>Ministry of Industry, Trade and Technology, internal research based on Statistics Canada data.
- <sup>6</sup>"Catering to Other Businesses — A Growth Area for Small Business," *Profits*, Federal Business Development Bank, Spring, 1986, Vol. 5, Number 4, p.2.
- <sup>7</sup>Lance H.K. Secretan, *Managerial Moxie*, Holt, Rinehart and Winston of Canada, 1986, pp. 146-164.
- <sup>8</sup>In this section, "Births" are firms that were formed after 1978 and still in operation in 1982.
- <sup>9</sup>In this section, "Deaths" are firms that were in existence in 1978 but ceased operations before 1982.
- <sup>10</sup>*An Analysis of the Overall Contribution of Small Business to Economic Activity*, Small Business Secretariat, November, 1982, p. 60.
- <sup>11</sup>Ministry of Industry, Trade and Technology, internal research.
- <sup>12</sup>*Mandate*, #123, Canadian Federation of Independent Business, April, 1986.
- <sup>13</sup>*An Analysis of Job Creation Based on the Regional Sectoral Data Base 1978-1982: Phase I: Preliminary Report*, Department of Regional Industrial Expansion.
- <sup>14</sup>Ibid.



# 5 Profiles of the Small Business Owner

## 5.1 The Demographics of Owners

During 1986, research was commenced by the Ministry of Industry, Trade and Technology to measure the regional distribution and annual rate of new business formations in Ontario. Data was collected during part of the year to determine the number of new unincorporated business registrations. (The number of new unincorporated businesses registered each year usually outpaces new incorporated registrations by a ratio of two to one.) By extrapolating this information, some tentative conclusions may be reached concerning the probable annualized rates of unincorporated business formations per 1,000 population in Ontario, as seen in Table 5.1.1.

**Table 5.1.1** *Business Starts per 1,000 Population by Region, Ontario, 1986<sup>1</sup>*

	Number of businesses	Population	Business/1,000 population %
Metropolitan Toronto	30,590	2,138,000	14.3
Central	25,200	3,350,000	7.5
South East	6,860	1,223,000	5.6
South West	4,410	1,282,000	3.4
North East	2,380	591,000	4.0
North West	560	237,000	2.4

In the summer of 1985, the Creative Research Group Limited presented the results of a research project undertaken on behalf of the Ministry of Industry, Trade and Technology. The owners of 861 businesses were interviewed (501 incorporated and 360 unincorporated). The purpose of the project was to produce a profile of the kinds of businesses these two groups formed between 1982 and 1984, measure the survival rates and generate other attitudinal and general demographic data about Ontario's small business owners.

The total sample group provided a good profile of new business owner demographics. Seventy-seven percent of the new business own-

ers are males, 23 percent are females; 48.4 percent of the owners are between 30 and 50 years old, only 6.1 percent are over 50 and the rest, 45.5 percent, are under 30. More detail may be found in Tables 5.1.2 and 5.1.3.

**Table 5.1.2** *Age of New Business Registrants in Ontario, 1985<sup>2</sup>*

	Female owners		Young owners		Owners with employees		All owners	
	#	%	#	%	#	%	#	%
Under 24	36	11.9	222	37.8	73	17.9	222	17.2
24-29	98	32.5	365	62.2	104	25.6	365	28.3
30-50	153	50.7	—	—	209	51.4	624	48.4
50 and over	15	4.9	—	—	21	5.1	78	6.1

**Table 5.1.3** *Operative Location of New Business Registrants in Ontario, 1985<sup>3</sup>*

	Respondents %
Part of home	66
Leased space	29
Purchased space	3
Other	2

## Age and Experience

Research into the role played by education in the success of entrepreneurs is generally unavailable in Canada and contradictory elsewhere. For example, a study of 64 presidents of smaller U.S. firms implied that there was a positive correlation between better education and entrepreneurial success.<sup>4</sup>

Another study, based on 150 successful entrepreneurs, revealed that a strong desire to achieve was more important than education.<sup>5</sup> The number of entrepreneurs with higher education is increasing every year in Canada and the United States; in one study of 2,500 successful entrepreneurs, one percent had attended but not completed high school, 17 percent had obtained a high school diploma, 43 percent had a bachelor's degree, 30 percent had a master's degree and nine percent had a doctoral degree.<sup>6</sup>

Two researchers who studied a group of Canadian inventor/entrepreneurs and founders of technologically based companies found that nearly 60 percent of them had university degrees and that most of them

**Table 5.1.4** *The Demographics of New Business Owners in Ontario, 1982-1984<sup>8</sup>*

	Incorporated %	Unincorporated %
Male	81	73
Female	19	27
Age		
Under 30	14	27
30-50	68	65
50 and over	18	11
Education		
Less than high school	20	25
High school graduate	21	22
Post high school	23	26
University graduate	35	25
Household income		
Under \$25,000	19	33
\$25-\$35,000	19	27
\$35-\$50,000	22	26
\$50,000 and over	41	14
Average	\$39,000	\$33,000

had assumed managerial roles in large corporations after graduating, the majority starting their businesses between the ages of 35 and 40.<sup>7</sup>

Another research project, undertaken between 1982 and 1984, found that new business owners in Ontario tend to be male and generally in the age group between 25 and 44 across both unincorporated and incorporated businesses. Incorporating is preferred by more male than female owners and the owners of new unincorporated businesses tend to be members of households receiving a lower income. The owners of incorporated businesses are more likely to possess university degrees than those of unincorporated businesses. Table 5.1.4 provides a comparison of the two groups.

The Small Business Branch of the Ministry of Industry, Trade and Technology has been conducting research on small business formations in Ontario since 1984. Each year, on randomly selected days, a survey of new business registrants is conducted at the Companies Branch of the Ministry of Consumer and Commercial Relations (MCCR) in Toronto. The statistical base in 1984 was 1,027 and in 1985 it was 1,472. The demographics of the 1985 survey respondents are presented in Table 5.1.5.

**Table 5.1.5** *The Demographics of New Business Registrants in Ontario, 1985<sup>a</sup>*

Sector	Gender %		Age %			
	male	female	under 24	24 to 29	30 to 50	over 50
Manufacturing	2.96	.94	.55	1.17	1.87	.31
Service	59.36	15.37	13.11	21.47	35.52	4.61
Retail	14.43	6.94	3.51	5.62	11.09	1.17
<b>Total</b>	<b>76.75</b>	<b>23.25</b>	<b>17.17</b>	<b>28.26</b>	<b>48.48</b>	<b>6.09</b>

Owners of start-up companies surveyed in this study tended to form new businesses in fields in which they had previous experience. Although the majority of owners of both types of businesses had the "hands-on" experience of actually working in a similar firm previously, only a minority had owned a similar type of business. Table 5.1.6 compares the business experience of owners of incorporated and unincorporated businesses.

Thirty to 35 percent of new business owners studied had started businesses before, the incidence being slightly higher among incorporated firms than unincorporated ones. The track record of the owners of incorporated firms in bringing their former businesses through the birth stages to maturity was substantially better than that of the owners of unincorporated businesses. Of all the previous businesses started by owners registering new ventures, 28 percent did not survive.

**Table 5.1.6** *The Previous Experience of New Business Owners, Ontario, 1982-1984*<sup>10</sup>

	Incorporated %	Unincorporated %
<b>Previous experience in:</b>		
this kind of business	81	75
other relevant business(es)	7	6
none	12	19
running a business	63	55
never run a business	37	45
<b>Previous employment as:</b>		
executive/manager/owner	46	36
professional	13	6
sales	9	9
clerical/other white collar	10	11
skilled labour	16	28
unskilled labour	3	4
student	2	3
other	1	3
<b>Number of new businesses started before:</b>		
(this one only)	64	71
1	15	15
2	9	7
3 or more	12	7
<b>Average number</b>	<b>2.3</b>	<b>1.9</b>
<b>Of which still active:</b>		
(this one only)	30	50
1	38	28
2	13	11
3 or more	19	11
<b>Average number</b>	<b>1.6</b>	<b>1.1</b>

## 5.2 Preparation

The majority of new business owners consulted their accountants and lawyers before starting their companies, and owners who incorporated consulted more than those who did not. Although some of these consultations may be caused by the act of incorporation, they result in the owners of incorporated businesses being better prepared before start-up by being more likely to have developed pro formas, arranging short and long term funding and creating written job descriptions.

They also tended to be more inclined to develop formal business plans than the owners of unincorporated businesses. Although half of them did not start with a formal business plan at all, more of the surviving incorporated business owners are still preparing a current business plan than the surviving unincorporated business owners. This is detailed in Tables 5.2.1 and 5.2.2.

**Table 5.2.1** *The Consultation Undertaken by New Business Owners, Ontario, 1982-1984<sup>11</sup>*

People contacted before start-up:	Incorporated %	Unincorporated %
Lawyer	60	44
Accountant	60	53
Someone in the same sort of business	49	54
Bank/financial institution	43	43
Supplier	40	37
Government	13	17
Market researcher	6	6

**Table 5.2.2** *The Financial Preparation Undertaken by New Business Owners, Ontario, 1982-1984<sup>12</sup>*

Financial preparation before start-up:	Incorporated %	Unincorporated %
Kept financial records	97	99
Developed a financial statement	93	88
Talked to financial institutions about financing	52	41
Obtained a loan to start the business	44	44
Considering equity financing	24	14



## Chapter Notes

Ministry of Industry, Trade and Technology, internal research.

<sup>1</sup>Ministry of Industry, Trade and Technology, research undertaken at the Companies Branch of the Ministry of Consumer and Commercial Relations.

<sup>2</sup>Ibid.

John Dart, "The Development of a Classification System for Entrepreneurial Types." D.B.A. Dissertation, University of Colorado, 1971, p. 222.

Orvis Collins and David G. Moore, *The Organization Makers: A Behavioral Study of Independent Entrepreneurs*, Appleton-Century-Crofts, New York, 1970, pp. 49-62.

The Center for Entrepreneurial Management, New York.

Christopher J. Maule and Isiah A. Litvak, "Entrepreneurial Success or Failure — Ten Years Later," *Business Quarterly*, winter 1980, pp. 68-78.

Ministry of Industry, Trade and Technology, internally commissioned research undertaken by the Creative Research Group.

Ministry of Industry, Trade and Technology, research undertaken at the Companies Branch of the Ministry of Consumer and Commercial Relations.

<sup>3</sup>Ministry of Industry, Trade and Technology, internally commissioned research undertaken by the Creative Research Group.

<sup>4</sup>Ibid.

<sup>5</sup>Ibid.



# 6 Franchising

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The U.S. Department of Commerce has called franchising “the wave of the future.” Although franchising is not a new phenomenon, many of the most successful and fastest growing franchising companies were founded within the last 20 to 30 years. Franchises are the leading edge of small business in the Canadian economy.

A recent study estimated the volume of total sales undertaken through Canadian franchised units at nearly \$50 billion — over one-third of total Canadian retail sales.<sup>1</sup> Approximately half of this is accounted for by motor vehicle dealers, soft drink bottlers and service stations. The balance is predominantly to be found in food, retail non-food, home improvement and maintenance, business services, automotive and other service (travel, party, haircutting, suntanning) sectors. Research suggests that this latter group of companies will lead the franchise explosion.

Between 1981 and 1984, franchisors averaged annual sales growth of 15 percent, compared to 7.7 percent for the retail sales sector as a whole and total GNP growth of 7.4 percent. Fifty-three percent of all franchise units and 47 percent of franchised sales are located in Ontario. Quebec ranks next with 13 percent and 27 percent respectively. Sixty-one percent of all franchisors' head offices are located in Ontario, with B.C. claiming the next largest proportion of head offices with 13 percent.

The companies surveyed, which account for 10 percent of total Canadian franchise sales, expect revenues to increase by a further 50 percent between 1985 and 1989, compared to a projected 35 percent increase for the total retail sector and a 28 percent growth for total GNP during the same period. To achieve this growth, franchising companies are planning to open new franchised outlets at a faster pace than the 11 percent achieved in 1984. The food sector, for example, is projecting twice as many unit openings in 1989 as in 1984.

Ontario's performance reflects the trend to be found in the United States. In 1983, total U.S. franchise sales accounted for 10 percent of gross national product. By 1985, they had passed \$US500 million, accounting for 20 percent of gross national product and representing over one third of retail sales in the United States.<sup>2</sup>

A 1982 study of franchising in Canada found that 64 percent of independent owner/entrepreneurs possessed prior experience in the same industry, compared to only 11 percent of the owners of franchised com-

panies. The study reported that "...independents seem to be much better prepared to operate businesses on their own than do the franchisees, who seek a business where a large number of franchisor support services are provided as part of the franchise contract."<sup>3</sup>

The same study revealed that, even before franchise fees and royalties, the capital invested by franchisees starting up new businesses is nearly double that of independent entrepreneurs (\$100,000 versus \$57,000).

Finally, the same study yields some interesting data about the sources of information consulted by new owner/entrepreneurs. Independent entrepreneurs tend not to consult their advisors before making the start-up decision while prospective franchisees tend to exhibit the opposite tendency. (See also Section 5.2, "Preparation.") The independent entrepreneur is compared to the franchisee in Table 6.1.1.

**Table 6.1.1** *Sources of Information before Starting Business<sup>4</sup>*

Source	Independent %	Franchisee %
Lawyer	32 (2)	80 (4)
Accountant	27 (3)	63 (3)
Banker	36 (1)	66 (5)
Business associates	23 (4)	64 (6)
Other franchisors	7 (6)	51 (2)
Other franchisees	11 (5)	68 (1)
Consultant	2 (7)	7 (7)

(1) denotes "most useful," (2) "next most useful," etc., as rated by respondents.

These findings may account for the marked difference to be found between the failure rates of independently owned businesses and those that are franchisee-operated. U.S. research shows that during the first five years, 80 percent of independently owned start-ups fail while only five percent of their franchised counterparts fail in the same time period.<sup>5</sup>

The trend predicted by The Naisbitt Group in the United States may be seen in Table 6.1.2.

This heady growth is expected to be replicated in Canada, and the implications for future job creation could be significant. According to the Association of Canadian Franchisors, franchised companies already employ more than one million Canadians and, with annual growth projected at 15 percent, 150,000 new jobs per annum are in prospect, many in the youth sector, where unemployment levels have proven to be so stubborn.<sup>6</sup>

	Sales (in \$US billions)		Annual growth %
	1985	1990	
Business			
Restaurants (all types)	48.9	86.1	12.0
Retailing (non-food)	18.8	33.6	12.3
Hotels, motels, campgrounds	14.6	22.5	9.0
Convenience stores	12.3	19.4	9.5
Business aids and services	12.1	21.3	12.0
Automotive products and services	10.6	15.9	8.5
Retailing (food other than convenience stores)	10.4	15.9	7.0
Rental services (auto, truck)	5.3	8.9	11.0
Construction and home services	3.7	92.5	20.0
Recreation, entertainment, travel	1.8	6.6	29.0
<b>Total top 10</b>	<b>\$US 138.5</b>	<b>238.1</b>	<b>11.5</b>

## Chapter Notes

<sup>1</sup> "Franchising: The Current Situation," Association of Canadian Franchisors, Toronto, 1985.

<sup>2</sup> The Naisbitt Group, "The Future of Franchising: Looking 25 Years Ahead to the Year 2010," International Franchise Association, New York, December, 1985.

<sup>3</sup> Russell M. Knight, *A Comparison of Franchisees and Independent Entrepreneurs*, paper presented to the Second World Conference of the International Council of Small Business, Halifax, June, 1983.

<sup>4</sup> Ibid.

<sup>5</sup> "Franchising: The Current Situation," Op. Cit.

<sup>6</sup> Howard Rose, Presentation to the York University MBA Entrepreneurship Class, winter, 1986.

<sup>7</sup> The Naisbitt Group, Op. Cit.

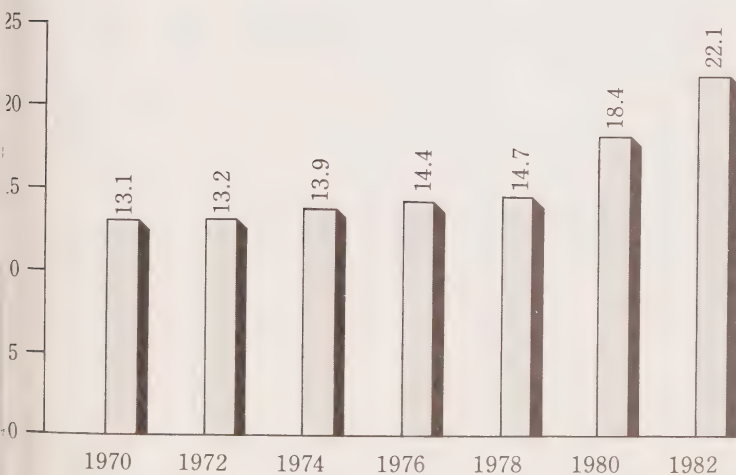


# 7 Women Business Owners

## 7.1 *The Profile of Women Business Owners*

Owning and managing an independent business is difficult under any circumstances. But for women business owners, starting and operating an enterprise is even more difficult. As a result, female owned businesses accounted for only 4.6 percent of all firms in the United States in 1972.<sup>1</sup> But that is all changing: the number of self-employed women (in the United States) increased by 35 percent between 1977 and 1982 and the trend in Canada reflects the same pattern, which can be seen in Chart 7.1.1.

**Chart 7.1.1** *Women Small Business Owners as a Percentage of all Proprietors, Canada, 1970-1982<sup>2</sup>*



A recent American study shows that the majority of women small business owners are between 40 and 45 years old.<sup>3</sup> The Canadian demographics, as reported by a Ministry of Industry, Trade and Technology survey, are similar. Table 7.1.1 compares male and female business starters.

**Table 7.1.1** *Male and Female New Business Owners Compared by Age, Ontario*<sup>4</sup>

	Female %	Male %	Total %
Under 24	11.9	18.8	17.2
24-29	32.5	27.1	28.3
30-50	50.7	47.7	48.4
50 and over	4.9	6.4	6.1

The educational levels attained by male and female new business owners in Ontario are similar. Forty percent of male and 43 percent of female new business owners have a high school education, and 32 percent of women and 28 percent of men starting new businesses have completed a university level education. Also, the parents of female small business owners — particularly their fathers — are more highly educated than the general populace. The majority of female small business owners come from middle class families and have university degrees. Results of a study done in the United States are presented in Tables 7.1.2 and 7.1.3.

**Table 7.1.2** *U.S. Women Small Business Owners, Social Class When Growing Up*<sup>5</sup>

	Women small business owners %
Lower class	6
Upper lower class	5
Lower middle class	19
Middle class	36
Upper middle class	28
Upper class	3

**Table 7.1.3** *Educational Level of Canadian Women Small Business Owners<sup>6</sup>*

	% of respondents
Grade 10 or less	6
Grades 10 to 12	20
Grade 13	8
Trade school	3
College	27
University	36
<b>Total</b>	<b>100</b>

**7.2** *Reasons Why Women Business Owners Start a New Business*

A 1978 survey of Canadian women business owners indicates that they started their own businesses because they felt restrained in the poor paying or low status positions in which they perceived themselves to be employed, desired to meet financial objectives but lacked the professional training to find a good job or were otherwise unable to find satisfactory employment. Twenty of the 98 surveyed suffered from "housewife's syndrome" — a strong desire to do something other than homemaking.

In studies performed in various locations across Canada since 1980, it has been found that women start new businesses primarily to experience the challenge of the entrepreneurial act or, secondly, to reach financial goals. Table 7.2.1 highlights the results of an Ontario study while Table 7.2.2 does the same for one in the United States.

**Table 7.2.1** *Reasons for Starting a New Business — Male and Female Motivations Compared, Ontario, 1985<sup>7</sup>*

	Female %	Male %	Total %
Money	19.2	23.1	22.1
Be my own boss	22.5	18.2	19.2
Previous experience	14.2	17.1	16.5
Economic necessity	11.6	12.1	11.9
Product need	6.6	10.5	9.6
Always wanted to do this"	10.6	6.4	7.4
tax advantage	3.6	2.1	2.5
Spare time	1.0	1.9	1.7
Other	9.9	8.2	8.6

**Table 7.2.2** *Reasons Why Women Became Involved in Their Present Entrepreneurial Ventures (United States)<sup>8</sup>*

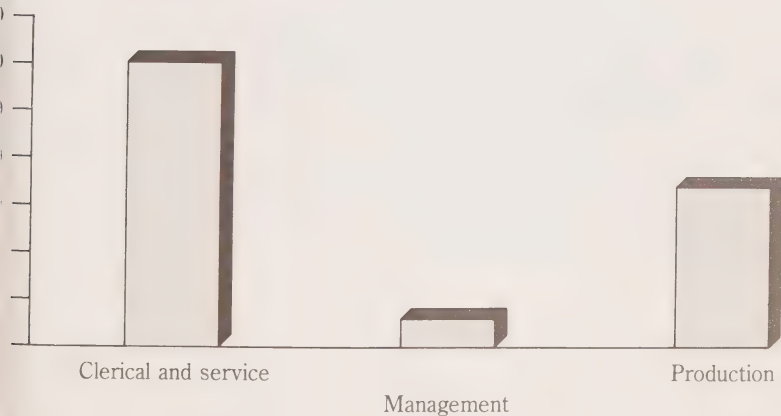
Reason	% of respondents
Interest in area of business	44
Job frustration	42
Terminated	7
Divorced	6
Desire to run own business	6
Widowed	4
Moved	4
Money and career	4
It just evolved	4
Independence	4
Boredom	3
Time to do something new	3
Interest of another	3
Children left home	3
Inherited money	2

None of these reasons for starting a business is surprising when the relationship of women to the total work force is considered. For all the efforts and rhetoric surrounding equal pay for work of equal value and numerous other policy initiatives designed to overcome discrimination against women, progress has been slow. Starting a business is considered by many women to be one of the most promising avenues to effect their escape from clerical ghettos. The dimension of the challenge facing women in the workforce can be seen in Charts 7.2.1 and 7.2.2.

**Chart 7.2.1** *The Earnings Gap Between Men and Women — Annual Income, Ontario, 1982<sup>9</sup>*



**Chart 7.2.2** *Ontario Women at Work by Occupation, 1984<sup>10</sup>*



### 7.3 *The Sectors Favoured by Women Business Owners*

Women owners of small businesses tend to avoid those sectors that have traditionally been male dominated, such as manufacturing, choosing, instead, the service sector. This seems to reflect the educational and the past experiences of women entrepreneurs. The service sector is favoured by 66.1 percent of women owners of new businesses; 29.8 percent start retail firms and 4.1 percent start manufacturing businesses. As shown in Table 7.3.1, women are less likely to start service businesses and more likely to start retail businesses than men.

**Table 7.3.1** *Comparison of Male with Female New Business Owners by Sectors Preferred, Ontario, 1985*<sup>11</sup>

	Female owners %	Male owners %	Average %
Manufacturing	4.2	3.8	3.9
Service	66.1	77.3	74.1
Retail	29.8	18.8	21.4
<b>Total</b>	<b>23.4</b>	<b>76.6</b>	<b>100.0</b>

### 7.4 *Management Training and Assistance for Women Business Owners*

A recent U.S. study shows that women small business owners usually assess themselves as being adept at idea generation, product innovation and personnel skills; average in marketing and business operation and poor in financial skills. All those surveyed claimed to have experienced difficulties during the start-up phases of their businesses. Two of the biggest problems, they claimed, were a lack of business training and a difficulty in obtaining lines of credit. In these disclosures may rest some normative guide to the direction that future government training and assistance for women should take.



It can be seen from Table 7.4.1 that women business owners consider their financial capabilities to be their weakest area of expertise, and some aspects of this weakness are reflected in Table 7.4.2, which describes the problems that U.S. women business owners face in operating their businesses.

**Table 7.4.1** *Women Business Owners' Appraisal of Their Management Skills, United States, 1984*<sup>12</sup>

	Poor %	Fair %	Good %	Very good %	Excellent %
Finance (forecasting, securing capital, budgeting)	15	32	27	15	6
People skills (management, development, training)	2	10	28	33	27
Marketing/sales (promotion, marketing research, selling)	6	20	20	33	22
Product development/product innovation	3	10	26	27	33
Business operations (inventory, production, day-to-day functions)	3	18	32	30	17
Organization and planning (business strategy, structure, policies)	4	15	29	29	23

**Table 7.4.2** *Problems in Current Operations, United States, 1984*<sup>13</sup>

	experienced by %
Lack of experience in financial planning	18
Over (attracting business, cash flow, hiring)	17
Demands of business affecting personal relationships	15
Lack collateral position	13
Obtaining lines of credit	11
Lack of business training	11
Lack of guidance and counsel	10
Lack of involvement with business colleagues	10
Lack of management experience	10
Lack of experience in use of outside services	9
Legal problems	5
Personal problems	4

A 1986 study of successful Canadian women entrepreneurs was produced by Jerry White at Laventhol and Horwath. He found, as exhibited in Tables 7.4.3 and 7.4.4, that women follow traditional sources of financing and that most are satisfied with the service provided by banks

**Table 7.4.3** *Women Entrepreneurs' Experience in Obtaining Financing for Growth, Canada, 1986<sup>14</sup>*

	Approached %	Positive response %	Provided acceptable services %
Banks — Schedule A	89	79	74
Banks — Schedule B	11	89	84
Trust and insurance companies	7	90	64
Credit unions	8	90	79
Venture capitalists	12	25	91
Brokers — merchant bankers	4	25	87
Government including the FBDB	22	56	70

A 1984 study of 1,200 women small business owners sought to define the role of the government in women-owned businesses in Canada. Its recommendations suggest that the government should provide more assistance on an "outreach" basis. The report contends that women owners of small businesses need two kinds of management assistance. They seek process training, "how-to" information, during the start-up phase, and later, during the growth and maturity phases, they need "content" training.

**Table 7.4.4** *Women Entrepreneurs Experiencing Discrimination, Received Poorer Levels of Service or Less Financing Compared to Men, Canada, 1986<sup>15</sup>*

	Discrimination %	Poor service %	Less financing %
Banks — Schedule A	21	28	28
Banks — Schedule B	14	12	10
Trust and insurance companies	33	34	34
Credit unions	15	10	10
Venture capitalists	44	21	33
Brokers — merchant bankers	35	22	31
Government including the FBDB	12	12	12

There appear to be four categories of training that would assist men entrepreneurs:

- plan the start-up of a new business;
- design and implement sales building and marketing;
- exercise adequate financial control;
- network between businesses.

The “process training” phase should contain:

- market research — “how to” collect data on industry, product and market potential;
- financial/accounting information — developing sales projections and cash flow forecasts for the first three to five years. Setting up the accounting system and methods of avoiding under-capitalization;
- marketing — techniques for promoting products/services in the most effective manner;
- information on government assistance programs — easier accessibility of information on the numerous programs;
- seminars on “how to start a business”;
- how to obtain financing.

Once women small business owners feel that their businesses have emerged through the birth stage into the growth or mature stages, their needs change. They are more interested in “content” emphasis such

- financial help — bookkeeping, financial planning, cash flow forecasting, inventory control and general cost control;
- sales and profit forecasting techniques;
- business planning — setting objectives, identifying growth potential;
- marketing — advertising, merchandising, new product development, product mix determination and sales development.<sup>16</sup>

## Chapter Notes

- <sup>1</sup>Robert D. Hisrich and Candida Brush, *Women and Minority Entrepreneurs: A Comparative Analysis*, paper presented to a conference on entrepreneurship, Hautes Etudes Commerciales, Montreal, April 1, 1986.
- <sup>2</sup>Ministry of Industry, Trade and Technology, internal research based on Statistics Canada data.
- <sup>3</sup>Robert D. Hisrich and Candida Brush, Op. Cit.
- <sup>4</sup>Ministry of Industry, Trade and Technology, internal research conducted at the Companies Branch, Ministry of Consumer and Commercial Relations.
- <sup>5</sup>Robert D. Hisrich and Candida Brush, Op. Cit.
- <sup>6</sup>Dina Lavoie, *Comparative Profiles of Men and Women Entrepreneurs: Problems with the Meaning of Data and with Measurements*, paper presented to a conference on entrepreneurship, Hautes Etudes Commerciales, Montreal, April 1, 1986.
- <sup>7</sup>Ministry of Industry, Trade and Technology, internal research conducted at the Companies Branch, Ministry of Consumer and Commercial Relations.
- <sup>8</sup>Robert D. Hisrich and Candida Brush, Op. Cit.
- <sup>9</sup>Ministry of Industry, Trade and Technology, internal research based on Statistics Canada data.
- <sup>10</sup>Ibid.
- <sup>11</sup>Ministry of Industry Trade and Technology, internal research conducted at the Companies Branch, Ministry of Consumer and Commercial Relations.
- <sup>12</sup>Robert D. Hisrich and Candida Brush, Op. Cit.
- <sup>13</sup>Ibid.
- <sup>14</sup>Jerry S. White, "The Rise of Female Capitalism — Women as Entrepreneurs," Laventhol and Horwath, April, 1986.
- <sup>15</sup>Ibid.
- <sup>16</sup>Lois Stevenson, "The Role of Government in Women-Owned Businesses in Canada," paper presented to the Third Canadian Conference, International Council for Small Business — Canada, Toronto, May, 1984.

# 8 The Aspirations and Achievements of New Business Owners

## 8.1 The Ambitions and the Outcomes

The degree of achievement aspired to by new business owners is very high at the time of registration, some of which may be fuelled by the euphoria of the event. The aspirations of those who incorporate are compared to those who do not incorporate in Table 8.1.1.

**Table 8.1.1** *The Aspirations of Business Owners at the Time of Start-up<sup>1</sup>*

	Incorporated %	Unincorporated %
Simply to make a living	38	52
To build a medium-sized company	5	5
To build a very large company	55	43

When the survivors of these new company registrations were asked about their aspirations one or two years later, their sights seem to have been adjusted to far more modest levels. However, there are distinguishing features between the surviving business owners when their ambitions are studied. For example, male, younger business owners and those who start with employees on their payrolls all seem to hold greater expectations for their ongoing ventures, and between one quarter (of unincorporated firms) and one third (of incorporated firms) expect to "... grow quickly — at least 50 percent annually."

Other more ambitious groups include incorporated retailers and unincorporated manufacturers, those with male owners and those who currently employ staff. A conservative estimate of future employment growth was offered by three-quarters of the sample surveyed, but one in eight of the unincorporated business owners and one in five of the incorporated business owners expect their staffs to grow by 50 percent or more. These future hopes are compared in Table 8.1.2.

**Table 8.1.2** *The Expectations of Business Owners after Formation (Regarding the Future Number of Employees)*<sup>2</sup>

Number of staff employed will:	Incorporated %	Unincorporated %
decline	3	1
remain at start-up levels	13	23
grow slowly over time	63	54
grow by at least 50% each year	20	15
don't know	2	7

The actual outcomes compared to the original expectations of new business owners concerning employment levels can be derived by comparing Tables 8.1.2 and 8.1.3. The latter table shows that from the time of start-up, small businesses generally more than double the size of their labour force. For example, by 1985, incorporated companies that started in 1982 employed 2.9 people for each one employed in 1982. The job building ratio is more powerful in incorporated firms than unincorporated ones, but very significant in both.

**Table 8.1.3** *Ratio of Number of Employees Now Compared to the Number at Start-up in Recently Registered Firms in Ontario*<sup>3</sup>

Incorporated %			Unincorporated %		
1982	1983	1984	1982	1983	1984
2.9	2.5	1.8	1.7	2.1	2.1

**Table 8.1.4** *The Expectations of Business Owners after Formation (About Their Future Sales Performance)*<sup>4</sup>

Sales volume will:	Incorporated %	Unincorporated %
decline	3	1
remain at start-up levels	3	7
grow slowly over time	58	62
grow by at least 50% each year	33	26
don't know	3	4

But the rather higher expectations articulated by incorporated business owners at the time of formation seem to be borne out by subsequent performance, which is significantly better than that of their unincorporated peers. In 1984, the average sales for incorporated firms



formed in 1982 and 1983 was \$150,000, and for unincorporated firms the sales levels had reached an average of \$92,000.

The difference becomes even more pronounced when owners of firms that have survived since registration are asked to define their comfort levels in terms of company sales levels. The owners of incorporated businesses aspire to a sales level of \$572,000 per annum, while the definition of success will be met at \$307,000 for the owners of unincorporated firms, a difference of 281 percent more than current levels for incorporated firms and 234 percent for unincorporated firms. Tables 8.1.4 and 8.1.5 compare expectations and "success" levels respectively.

**Table 8.1.5** *"What Level of Sales Will You Need to Reach in Order for You to Consider Your Business 'Successful'?"*<sup>5</sup>

Dollars	Incorporated %	Unincorporated %
Under 25,000	1	1
25,000-50,000	2	12
50,000-100,000	7	16
100,000-200,000	15	23
200,000-500,000	21	17
500,000-1,000,000	15	9
1,000,000 and over	31	9

Within the time span of the 1982 to 1984 study, one in three of the owners of unincorporated companies decided to incorporate their firms.

## 8.2 Factors Constraining Small Business

One problem that small business owners usually put on a list of issues that they regard as an impediment to business and personal growth and success is government paperwork (see Chapter 10 for an extensive review of this subject).

The principle issue that seems to concern new business owners more, however, is the difficulty of acquiring qualified, skilled workers. When asked if they had at any time encountered the problems frequently articulated by other small business owners, the responses fell according to the distribution in Table 8.2.1 (the percent of respondents indicating that the issue was a major problem follows in parentheses).

**Table 8.2.1** *“Have You Encountered any of the Following Problems Your Business?” New Business Registrants, 1982-1984<sup>6</sup>*

	Incorporated %		Unincorporated	
Finding qualified/skilled workers	60	(35)	55	(37)
Government paperwork	53	(20)	42	(14)
Making sufficient profits	52	(20)	55	(19)
Finding customers	44	(14)	44	(14)
Municipal charges and taxes	44	(18)	36	(16)
Getting debt financing	41	(20)	33	(16)
The provincial tax system	39	(17)	32	(10)
The federal tax system	38	(18)	29	(12)
Raising equity capital	37	(18)	34	(14)
Payroll taxes, U.I.C., etc.,	36	(13)	24	(8)
Personal lack of				
management skills	35	(6)	36	(5)
Preparing marketing plans	28	(7)	24	(5)
Preparing financial plans	25	(6)	32	(9)
Dealing with labour laws	23	(6)	13	(2)
Getting information on				
how to start a new business	20	(5)	22	(5)

### Chapter Notes

<sup>1</sup>Ministry of Industry, Trade and Technology, internally commissioned research undertaken by the Creative Research Group.

<sup>2</sup>Ibid.

<sup>3</sup>Ibid.

<sup>4</sup>Ibid.

<sup>5</sup>Ibid.

<sup>6</sup>Ibid.

# 9

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## Small Business Financing

### 9.1 *Sources and Availability of Capital*

#### Sources of Funds

A characteristic of small businesses is under-capitalization. The initial capitalization of start-ups is often under \$5,000 and frequently this is generated from combinations of personal funds, investments of "non-bankable" owners' time (sweat capital) and the resources of friends and relatives (love money). The remaining financing needs are met by debt financing secured by personal as well as business assets.

The structure of small firms' balance sheets is far more likely to be characterized by short term liabilities than is that of their larger brethren. Recent research has shown that the smallest firms have a ratio of 55 percent liabilities to 45 percent equity, while large firms have a ratio of 41 percent liabilities to 59 percent equity. Table 9.1.1 details this. These balances between liabilities and equity are aggravated by the relationship between short and long term debt. The smallest firms carry 41 percent short term and 14 percent long term debt, whereas larger corporations have only 19 percent of their financing in short term debt.<sup>1</sup>

In terms of financial performance, there is an irony in the fact that while the smaller firms create the majority of new jobs, a commensurate reward for this social contribution is not reflected in their financial results. As Table 9.1.2 shows, almost 60 percent of small firms fall outside "normal" rates of return on assets (0 to 16 percent), while only 23 percent of large firms do so.

A contributing factor to the poor profit performance of the small business sector has been the rising level and cost of debt. The interest burden (calculated as interest/profit before tax) has grown for companies of all sizes. From 1979 to 1984, the interest burden for large companies grew from 20 percent to 42 percent. However, among small and medium sized firms (SMEs), the interest burden grew from 35 percent to 62 percent during the same period. The interest burden of small firms has been some 50 percent higher than the large company experience but their profits have only been one-fifth and their profit margins one-third of those of the large firms.

As Table 9.1.3 shows, the ratio of interest burden to profits compares unfavourably with the universe of Canadian industrial corporations.

**Table 9.1.1.1** *Distribution of Corporate Financing by Category of Instrument and Size of Firm Assets, Canada, 1981<sup>2</sup>*

	Assets (\$millions)					
	from .250 to .999 and less	from 1.000 to 4.999	from 5.000 to 9.999	from 10.000 to 24.999	from 25.000 over	
Liabilities	54.8	56.6	54.0	48.2	41.1	
Short term	41.2	42.0	39.0	33.4	19.3	
Long term	13.6	14.6	15.0	14.8	21.8	
Equity	45.2	43.4	46.0	51.8	58.9	
Equity	44.8	41.4	43.1	48.2	51.9	
Equity	0.4					

Table 1.9 Distribution of Assets by Rate of Return  
Assets and Size of Assets, Canada, 1977<sup>3</sup>

	Assets (\$millions)				
	from .250 to .999 and less	from 1,000 to 4,999	from 5,000 to 9,999	from 10,000 to 24,999	over 25,000
Negative rate of return					
0-8%	28.2	17.4	13.2	8.8	9.2
8-16%	18.7	28.9	34.8	33.5	39.1
Greater than 16%	22.8	28.9	37.1	38.0	37.4
	30.3	24.8	15.1	19.7	14.4

**Table 9.1.3** *Financial Characteristics of Industrial Corporations, Canada, 1979-1984*

	1979	1980	1981	1982	1983	1984
<b>Index of GNP</b> (1977 = 1,000)	1,176	1,307	1,446	1,591	1,683	1,723
<b>All companies</b>						
Sales of SMEs						
<b>Total sales</b>	<b>40.4</b>	<b>39.7</b>	<b>37.5</b>	<b>36.2</b>	<b>36.6</b>	<b>36.5</b>
<b>SMEs</b>						
Sales	137,287	134,282	134,247	116,101	119,198	125,925
Profits	5,872	5,154	4,880	2,824	3,273	3,301
Interest paid	2,074	2,321	3,097	2,889	2,231	2,059
Profit margin	4.3	3.8	3.6	2.4	2.7	2.6
Interest burden	35.3	45.0	63.5	102.3	68.2	62.4
<b>Large companies</b>						
Sales	202,116	203,741	224,165	204,452	206,611	219,403
Profits	19,725	19,718	16,642	9,422	13,541	15,863
Interest paid	4,113	4,888	7,433	8,378	6,737	6,723
Profit margin	9.8	9.7	7.4	4.6	6.6	7.2
Interest burden	20.9	24.8	44.7	88.9	49.8	42.4
<b>All companies</b>						
Sales	339,402	338,023	358,411	320,553	325,809	345,328
Profits	25,598	24,871	21,522	12,246	16,814	19,164
Interest paid	6,187	7,209	10,530	11,268	8,968	8,782
Profit margin	7.5	7.4	6.0	3.8	5.2	5.5
	24.2	29.0	48.9	92.0	53.3	45.8



## Venture Capital

Generally, the principal source of start-up financing is generated by what one team of researchers has called the "Uncle Harry" group. Uncle Harry is an individual who has been persuaded to invest in a venture because he is related to — or personally acquainted with — the principal of the venture and who has invested primarily because of this connection.<sup>5</sup> A secondary source of funding is arranged through the formal venture capital market.

The Association of Canadian Venture Capital Companies includes over 35 companies, all of whom have a minimum of \$1 million in equity investments available for such investments. They may not invest more than 20 percent of these funds into any one enterprise and their investments are made with the clear understanding that they seek to liquidate the holding within a finite time period.

Membership includes private venture capital firms, the Federal Business Development Bank, the Ontario Development Corporation and several members of the chartered banking community such as the TD Capital Group, Roynat and Roymark. Some larger corporations, such as Northern Telecom Venture Capital Division and The Molson Companies Ltd., represent additional sources of venture funding and many "schedule B" banks also provide venture capital funding.

Some of the more frequently used sources of information about venture capital include *ABC Assistance to Business in Canada*, published by the Federal Business Development Bank and available "on line" at most of its branches, *Sources of Funds Index*, published by SB Capital Corporation Limited, and the *Canadian Business Magazine* annual survey of venture capital. In addition, most chartered banks and accounting firms will offer advice to entrepreneurs concerning sources of venture capital.

In practice, most of these companies will not invest funds of less than a given amount. These minimum levels are typically between 100,000 and \$250,000, with some companies having lower limits of \$1 million. The average first-time investment by the members of the Association of Canadian Venture Capital Companies in 1982 was 300,000. As one venture capitalist remarked recently, "I have to work hard to set up a \$50,000 deal as I do a \$500,000 one." This attitude has caused many observers to conclude that the venture capital industry has not been geared to start-up investment.

A recent study of applicants that had been rejected by venture capital firms showed that most were trying to raise less than \$250,000.<sup>6</sup> Another study showed that the reasons for rejection given by the venture capital firms are as shown in Table 9.1.4.

**Table 9.1.4** *Venture Capitalists' Reasons for Rejecting Application*<sup>7</sup>

Reason	% of responses
Amount too small	17
Insufficient earnings	17
Inappropriate industry	13
Economy bad	10
Price too high	10
Deal too risky	10
Management not competent	6
Not interested	17
<b>Total</b>	<b>100</b>

Seventeen percent of these rejected applicants obtained financing from alternative sources, 15 percent of them from other venture capital firms. Only 10 percent stated that they had cancelled their project, lending credence to the generally accepted view that entrepreneurs who are strongly motivated eventually obtain start-up financing, regardless of the financial hurdles that are placed in their way. The alternative sources are shown in Table 9.1.5.

**Table 9.1.5** *Other Sources Approached for Same Financing*<sup>8</sup>

Source	Approached	% of responses
Chartered bank	52	23
Individual investors	42	26
FDBD	40	15
Provincial govt. program	39	16
Federal govt. program	34	18
SBDC	27	11
U.S. sources	26	11
Private placements	24	13
Other (corporations & other institutions)	16	5

## The Chartered Banks

In December, 1985, the CFIB released the findings of a poll of its members concerning banking relationships.<sup>9</sup> Of the estimated 750,000 small businesses in Canada, 86.2 percent used a chartered bank as their primary source of financing and 78.1 percent banked with one of the "big five." At the end of the third quarter of 1985, the chartered banks reported \$15.9 billion in loans outstanding to small businesses (an increase of \$2 billion or 13 percent since 1982). Government guaranteed loans make up about 10 percent of the banks' small business loan portfolios. Small business and the major banks enjoy a relationship that is very important to both parties; indeed, loans to small business represent almost 25 percent of the banks' total lending portfolios.

Despite the strength of this relationship, more respondents expressed dissatisfaction with the five major chartered banks in 1985 than in 1982 (31.1 percent versus 27.9 percent).

In Ontario, according to the CFIB study, the "big five" small business market share was 93 percent. The National Bank accounted for 1.3 percent of market share (27.8 percent in Quebec, 6.5 percent nationally), other chartered banks 0.9 percent (5.8 percent in B.C., 5.6 percent in Alberta and 1.6 percent nationally), trust and finance companies 1.7 percent (1.0 percent nationally) and credit unions 2.4 percent (33.9 percent in Quebec, 17.4 percent in Saskatchewan, 12.9 percent in Manitoba, 12.7 percent in New Brunswick and 10.5 percent nationally).

Generally, respondents reported higher levels of satisfaction with credit unions (85.2 percent), trust and finance companies (83.9 percent) and other chartered banks (77.2 percent) than with the "big five" (68.3 percent). These perceptions may account for the fact that all but one of the major banks' share of the small business market had declined between 1982 and 1985, and the shift by small business towards credit unions and cooperatives, trust and finance companies and other financial institutions has accelerated during the same period.

Ontario, with more concentration of larger financial institutions than other regions, appears to sit at the lower end of the scale in Canada, with 69.4 percent of CFIB respondents claiming satisfaction with the financial and banking services received. This compares with P.E.I. 85.9 percent, Quebec 83.8 percent, Nova Scotia 79.8 percent, Manitoba 73.1 percent, New Brunswick 73.0 percent, Saskatchewan 71.6 percent, Newfoundland 69.5 percent, Alberta 65.9 percent, B.C. 69.8 percent and a national average of 71.7 percent.

The survey's findings indicate a positive correlation between the number employed in a firm and the general level of satisfaction with banking services, the smallest firms being more often dissatisfied.

The broadening of the services provided by regional banks and other financial institutions, together with the extension of competition proposed by several recent government discussion papers and bills (see Section 10.2), will almost certainly hasten the recent trend of financial institutions to court the small business owner/manager.

The shift from a manufacturing to a service and knowledge based economy has created certain puzzles for the banking and small business fraternities. Funding against the "hard assets" of small manufacturers is one thing, but start-ups in the service sector often only possess "soft assets" such as intellectual property rights, know-how or a team that has specialized skills that relate to a narrow market "niche" or specialization; bankers find these assets awkward to use as collateral and our financial system regards them warily.

The advent of the "post-industrial" era has ushered in a new wave of service companies whose owners tend to favor debt rather than equity capital for start-up purposes and who tend to seek more leverage than new manufacturing companies. This has created higher risks and vulnerabilities for the lending institutions.

## 9.2 *Initial Capital Formation*

The Creative Research Group study of 501 incorporated and 360 unincorporated businesses revealed that the average start-up funding of new firms in Ontario was \$27,000, and personal investment accounted for 68 percent of this amount for incorporated owners and 73 percent for unincorporated owners. The owners of incorporated firms invested more in their new businesses than the owners of unincorporated ones. See Table 9.2.1. (This may be compared to the average initial investment made into business start-ups by franchisees described in Section 6.1, "Franchising.")

Both the age of the owner and the number of staff to be employed in the new venture were correlated with the size of the initial investment. Older business owners tend to put more personal capital into a new business as a percentage of the total investment.

The relatively higher investment by males compared to females may add power to the critics of Canada's financial system who argue that it discriminates against women. The male owners of new incorporated companies invest an average of \$27,900 (female \$21,400), with \$18,900 (\$14,300) of this coming from personal sources.

**Table 9.2.1** *The Amount of Funds Invested by New Incorporated and Unincorporated Business Owners in Ontario, 1982-1984*<sup>10</sup>

Start-up funds	Incorporated %	Unincorporated %
\$0-\$5,000	16	24
\$5,000-\$11,000	15	17
\$11,000-\$21,000	16	19
\$21,000-\$50,000	22	16
over \$50,000	28	18
Don't know/refused	3	6
Average start-up investment (000s)	\$26.7	\$20.8
... of which being your own money		
\$0-\$5,000	30	34
\$5,000-\$11,000	18	20
\$11,000-\$21,000	17	17
\$21,000-\$50,000	16	13
over \$50,000	13	9
Don't know/refused	6	7
Average (000s)	\$18.1	\$15.2

The primary sources of start-up funds are from within the personal resources of the new owners, with the principal secondary sources being banks and other financial institutions. Unincorporated firms lean more heavily on relatives as sources of start-up capital. Of the companies that had survived the three years since formation in 1982, about 50 percent had required additional funding for working capital and other needs and they had tended to turn first to banks and other financial institutions. Tables 9.2.2 to 9.2.4 outline the start-up and subsequent financial requirements and the sources that met the need.

**Table 9.2.2** *Working Capital Requirements by Sector, Ontario, 1985*<sup>11</sup>

Sector	Less than \$5,000 %	\$5,000- \$10,000 %	\$11,000- \$49,000 %	Over \$50,000 %
Manufacturing	2.0	1.0	.8	.1
Service	41.9	16.2	13.6	3.1
Retail	10.1	4.5	4.5	2.2



**Table 9.2.3** *The Sources of Funds for New Incorporated and Unincorporated Business Owners in Ontario, 1982-1984*<sup>12</sup>

Start-up funds (beyond own money)	Incorporated %	Unincorporated %
<b>All start-ups</b>		
Banks/other financial institutions	28	25
Relatives	9	20
Friends	6	11
Other investors	9	6
<b>Own money</b>		
Partner	10	6
Self finance/own capital	13	11
Earnings/the business	3	2
Government	< 0.5	—
Other	< 0.5	1
<b>Sources for additional funding (Those needing and successfully raising additional financing)</b>		
Banks/other financial institutions	74	60
Relatives	13	18
Friends	6	13
Other investors	11	5
<b>Own money</b>		
Partner	2	1
Self finance/own capital	6	6
Earnings/the business	7	11
Government	1	4
Other	0	1

**Table 9.2.4** *Sources of Funds by Sector, Ontario, 1985*<sup>13</sup>

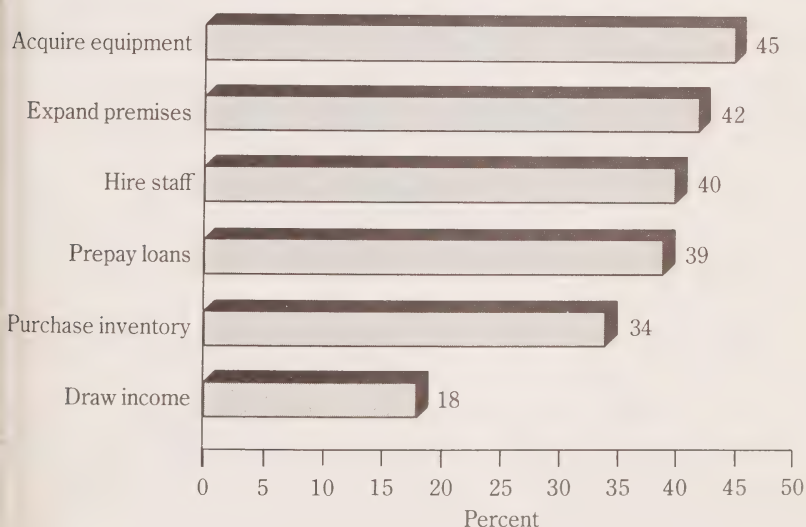
Sector	Savings %	Bank %	Relatives/ friends %	Business %	Other %
Manufacturing	3.5	.1	0	.2	.2
Service	61.2	6.2	2.3	2.0	2.3
Retail	16.3	2.4	.9	.7	.9
<b>Total</b>	<b>80.0</b>	<b>8.7</b>	<b>3.2</b>	<b>2.9</b>	<b>3.4</b>



Financial experts and advisors frequently stress the importance of adequate funding prior to the formation of new ventures, but the Creative Research Group study implies that either this issue is well considered by most business owners before start-up or its importance has been overstated. Fully 46 percent of the owners of incorporated firms and 47 percent of the owners of unincorporated firms report that they have had no need of additional financing. Forty-one percent of incorporated owners and 40 percent of unincorporated owners needed additional capital and were successful in obtaining it and only 12 percent of incorporated and 13 percent of unincorporated firms needed additional funding and failed to obtain it.

When asked if they would go into debt in order to obtain more capital, two-thirds asserted that they would, incorporated business owners being even more prepared to take that risk than the owners of unincorporated firms. The business owners' responses when asked what the additional funds would be used for can be seen in Chart 9.2.1.

**Chart 9.2.1** *Uses of Additional Equity in New Firms, 1985<sup>14</sup>*



### 9.3 *Government Programs*

Access to capital is the most pressing financial problem of newly formed small businesses. In response, both federal and provincial governments have developed tax incentives and financing programs to address the equity capital needs of start-ups and young companies.

#### **Small Business Development Corporations**

Small Business Development Corporations (S.B.D.C.) were introduced by the government of Ontario in July, 1979. "To encourage equity investment in Ontario-based small businesses, incentives are provided to those who buy shares in an S.B.D.C.(s) for the purpose of directing the invested funds to qualifying businesses."<sup>15</sup>

S.B.D.C.s provide certain investors with a 25 percent tax credit (30 percent in Northern and Eastern Ontario) for investments made in businesses operating in the manufacturing, processing, tourism, book publishing or prescribed research and development industries. The October, 1985, provincial budget widened the definition of eligible small businesses to include those companies undertaking computer software development of user-ready programs for sale, lease or license, providing the employees of the small business carry out substantially all of the research, programming and testing. The equity capital of the S.B.D.C. may not be less than \$100,000 (except in Northern and Eastern Ontario, where it may be \$50,000).

A small business is eligible for the S.B.D.C. tax credit when:

- the small business employs fewer than 150 employees;
- 75 percent of the employees' salaries and wages are paid in Ontario;
- the investment is not re-lent, invested in land or re-invested outside of Canada;
- the recipient small business's principals are ordinarily resident in Ontario and the S.B.D.C. operates at "arm's length" of the Canadian controlled small business.

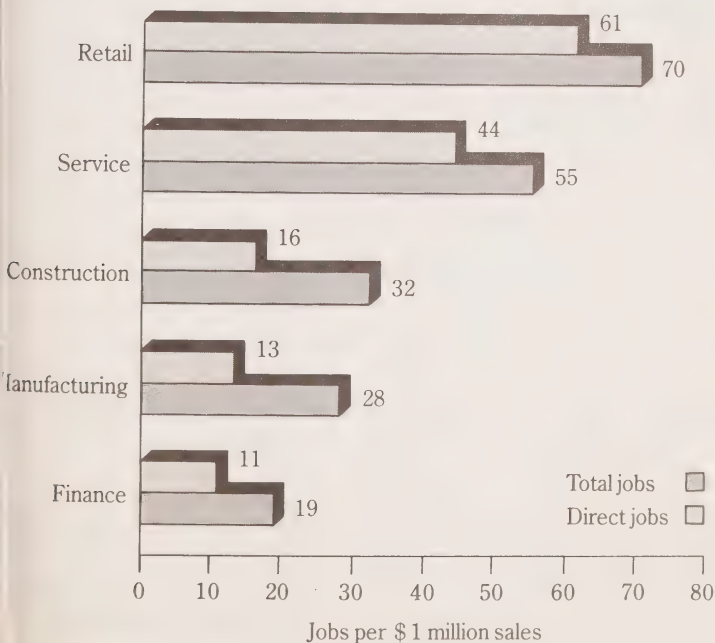
In its report to the Ontario Ministry of Treasury and Economics, Clarkson Gordon concluded that the S.B.D.C. program was "...successfully meeting its objectives of supporting small business in Ontario through the encouragement of new equity investment by the private sector. The program is well received by participants, is lauded by major small business organizations, and the efficient administration by the Ministry of Revenue contributes to its success."<sup>16</sup>

Another measure of the program's success is the lead given by Ontario, which has resulted in the establishment of S.B.D.C. programs in several other provincial jurisdictions. Ontario's S.B.D.C. program has been judged as "... the most successful of its kind."<sup>17</sup>

The S.B.D.C. program is criticized, however, on two counts. Firstly, many members of the small business community feel that they could benefit from greater access to direct equity investment if the minimum capitalization levels were reduced from \$100,000 to \$50,000 across the board.

Another change promoted by many is the broadening of eligibility to include the service sector. The job creating power of the small service companies has been documented in Section 3.1. The business services sector in Canada grew from 23,000 firms in 1976 to about 42,000 in 1982, and the proportion of new jobs they created was even greater. Service companies as a whole provided 55 new jobs for every million dollars of new sales compared to 70 in retail trade and 28 in manufacturing. This is presented graphically in Chart 9.3.1.

**Chart 9.3.1** *Job Creation by Industry, Canada, 1978<sup>18</sup>*



As Table 9.3.1 shows, services and trade were the most potent job creating sectors of the economy at 37 percent and 21 percent respectively, followed at some distance by manufacturing and finance (10 percent each) and construction at five percent. It is notable, too, that the smallest companies in the service and trade sectors produced the lion's share of the net new jobs.

Although the S.B.D.C. program has assisted in the placing of investments averaging \$185,000 in goods producing companies, two to three times as many new business formations, expansions and new jobs are created by the service companies compared to the goods producing companies. The job creation potential of the service sector is 2.8 times that of the existing combination of manufacturing, processing, tourism, book publishing or prescribed research and development industries. The job creation potential of S.B.D.C.s in the service sector, therefore, could be substantial if one also bears in mind that, according to Statistics Canada, manufacturers must invest approximately \$75,000 to create one new direct job whereas service companies achieve the same result with only \$22,500. Looking at this issue in terms of fiscal pay-back has already helped to point policy makers into new strategic directions.

According to a recent study of 255 presidents of S.B.D.C.s, individuals who invest in S.B.D.C.s are predominantly business executives or professionals. Also, S.B.D.C. investors were not motivated to invest solely because of the existence of the S.B.D.C. program (87.4 percent of total respondents), but also because they wanted to be involved in the process of management of the firms in which their capita was invested (62.5 percent).

When asked whether the desire for involvement was more or less important than the reduction of risk represented by "leveraging gov-

**Table 9.3.1** *Percentage of Net Employment Change by Firm and Size of Industry, Canada, 1974-1982*<sup>19</sup>

Selected sectors	0-19 %	20-49 %	50-99 %	100-199 %	200-499 %	500+ %	Total
Manufacturing	7.4	1.7	-1.2	-2.3	-3.1	7.7	10
Trade	14.0	1.0	-0.4	-0.7	-0.5	7.9	21
Construction	6.6	-9.5	-0.8	-0.9	-0.1	0.6	5
Finance	4.1	0.6	0.3	0.1	0.3	4.6	10
Services	17.1	4.9	2.7	1.9	1.4	9.4	37
<b>Total</b>	<b>54.7</b>	<b>8.5</b>	<b>0.6</b>	<b>-1.8</b>	<b>-1.4</b>	<b>39.4</b>	<b>100</b>

\*Total does not add to 100 percent vertically as only selected sectors are shown.



ernment funds under the S.B.D.C. scheme," 40 percent felt it was more important, another 40 percent felt it was equally important and 20 percent felt it was less important. Seventy-six percent of the respondents cited the existence of the S.B.D.C. program as an important factor in their decision to invest.<sup>20</sup>

## Small Business Loans Act

In recent years, loan guarantee programs have gained popularity as financing vehicles for small businesses. In Canada, the largest such program is the Business Improvement Loan Guarantee Program of the Government of Canada, created under the *Small Business Loans Act* (S.B.L.A.). The underlying concept behind this program is to deliver government financial support to the private sector by using private sector facilities (the financial institutions implement the program). Small businesses (those with annual gross revenues of \$2 million or less) are eligible to receive loans of not more than \$100,000 at an interest rate of one percent above prime. Although the recipient receives the funds from the financial institution, the government protects the institution from default by underwriting 85 percent of the loaned amount.

Small businessmen and women can use the loans to finance up to 100 percent of the cost of equipment, including installation and 90 percent of construction costs. Refinancing of existing debts or working capital are not eligible. The financial institutions must pay the government a fee of one percent of the loaned amount at the time the loan is registered. However, they are permitted to pass all or part of the costs of this fee onto the borrower.<sup>21</sup> Table 9.3.2 classifies S.B.L.A. loans by the type of lender.

The average amount borrowed by each applicant has risen from \$8,909 in 1961 to \$26,766 in 1983, and the number of borrowers has grown from 8,368 to 25,820 over the same period.<sup>22</sup> The type of business of the borrower is shown in Table 9.3.3.

Research undertaken for The Canadian Banker's Association by the University of Western Ontario reveals that 40 percent of loans made under the aegis of the *Small Business Loans Act* are made to start-up companies compared to only 19 percent of regular high-risk company bank loans. The study goes on to report that the S.B.L.A. program results in a significant volume of term loans to small business that would not have been made if the program had not existed. The authors concluded that as many as 50 percent of all S.B.L.A. borrowers may have obtained other financing to supplement their S.B.L.A. loans.

Especially encouraging is the fact that many loan recipients were

young firms or firms with new owners, less experienced management or firms unable to offer high levels of collateral support. S.B.L.A. recipients surveyed had reduced their borrowing costs by an average of between 75 and 112 basis points. Finally, the study concluded that the S.B.L.A. program enables small businesses to obtain extended loan payment terms.<sup>23</sup>

**Table 9.3.2** *S.B.L.A. Loans Classified by Type of Lender (\$ millions)*<sup>24</sup>

Type of lender	1982	1983	Total	% of total
Banks	400	624	1,024	90.4
Trust companies	19	16	35	3.1
Credit unions	19	48	67	5.9
Other	2	3	5	0.6

**Table 9.3.3** *S.B.L.A. Loans Classified by Type of Business (\$ millions)*

Type of business	1982	1983	Total	% of total
Wholesale	15	23	38	3.4
Retail	109	180	289	25.6
Construction	38	63	101	8.9
Manufacturing	44	73	117	10.3
Service	185	276	461	40.8
Transportation	45	70	115	10.2
Communications	4	6	10	0.8
<b>Total</b>	<b>440</b>	<b>691</b>	<b>1,131</b>	<b>100.0</b>

## Taxation Policy

In a 1985 study of recently registered businesses in Ontario conducted for the Ministry of Industry, Trade and Technology, respondents were asked if they were aware of the Ontario corporate income tax exemption and, if so, how they had applied the savings. This is shown in Table 9.3.4.

Respondents of the survey were then asked how they would make use of the tax exemption savings. Table 9.3.5 indicates these results.



**Table 9.3.4** *The Awareness and Use of Savings from Corporate Tax Exemptions — Recently Registered Business Owners in Ontario*<sup>26</sup>

	%
Aware of exemption	70.6
Percent using the exemption	38.4
As a percent of those aware)	54.4
Amount saved in 1984 by those using the exemption:	
Under \$5,000	11.5
Over \$5,000	10.9
Don't know	77.6

**Table 9.3.5** *The Application of the Savings Derived from Corporate Tax Exemptions — Recently Registered Business Owners in Ontario*<sup>27</sup>

	%
Purchased or leased equipment	48
Purchased inventory	37
Hired staff	33
Paid down loans	25
Invested in research and development	25
Taken as income	20
Rented or purchased more space	14

Most of the firms surveyed could not remember the exact amount of money saved by the corporation tax holiday, but the average figure for those that did was \$17,500. The comparison of the ranking between what small business owners would do with an extra \$25,000 compared to what they actually used the corporation tax exemption for provides an interesting contrast, as seen in Table 9.3.6.

**Table 9.3.6** *The Actual Use of the Savings Derived from Corporate Tax Exemptions Compared to the Potential Application of \$25,000 of Additional Capital — Recently Registered Business Owners in Ontario (by Rank)*<sup>28</sup>

Potential	Actual
Purchase or lease equipment	1. Purchased or leased equipment
Hire staff	2. Purchased inventory
Pay down loans	3. Hired staff
Rent or buy more space	4. Paid down loans
Purchase inventory	5. Invested in research and devlpmt.
Take as income	6. Took as income
	7. Rented or bought more space

As can be seen, when business owners were asked on what they would spend an additional \$25,000 of capital, they responded similarly though not exactly to the way they acted when they received additional funds in the form of a tax exemption.

The third ranking use of funds is the hiring of additional staff, and the multiplier effect of tax incentives can be clearly demonstrated in Table 9.3.6. In the incorporated firms, the addition to the establishment was 2.9 full-time employees and half a part-time one. Even if these employees were paid the minimum wage for an average work week, their taxes paid would cover the corporation tax exemption.

### **Computerized Ontario Investment Network**

The Ontario government has recognized the need for an efficient mechanism to help bring business owners and potential investors together. These potential investors include wealthy individuals, particularly those who have made their wealth through their own entrepreneurial endeavors, as well as wealthy professionals. It has been estimated that the supply of informal risk capital far exceeds the institutional risk capital supply. Research has also established that this informal risk capital market operates very inefficiently because effective mechanisms do not exist to make suppliers and seekers of capital aware of each other.

The Computerized Ontario Investment Network (COIN) has been created by the Ontario government and the Ontario Chamber of Commerce to bridge this gap.

COIN will be operated by the Ontario Chamber of Commerce as a non-profit enterprise. COIN will function in the following way:

- business owners and investors apply, or are referred to, the Network database;
- business owners' and investors' needs are compared against a set of criteria to generate "matches";
- all matches are communicated only to the relevant investors who, in turn, can decide whether or not to follow up. If the investor does so, the Network will send him/her a summary of the entrepreneur's business plan.

## New Ventures Loan Guarantee Program

The New Ventures program guarantees loans up to \$15,000 by private sector lenders such as banks, trust companies and credit unions to new small businesses. A matching equity contribution by the business owner is required; also, at least one new job, besides the owner's, must be created. Loan recipients must be established in Ontario and begin operations within four weeks of receiving the loan. For the first 12 months, participants will pay interest only at the rate of prime plus one percent.

### Chapter Notes

<sup>1</sup>Economic Council of Canada based on unpublished data from Statistics Canada.

<sup>2</sup>Ibid.

<sup>3</sup>Ibid.

<sup>4</sup>Statistics Canada, Corporation Financial Statistics.

<sup>5</sup>Andrew Szonyi and Greg Leach, "Characteristics and Expectations of Suppliers of 'Informal' Venture Capital in Ontario," paper presented to the Third Annual Conference, International Council for Small Business — Canada, May, 1984.

<sup>6</sup>Ibid.

<sup>7</sup>Russell M. Knight, "An Evaluation of Venture Capital Rejections and their Subsequent Performance," *Journal of Small Business and Entrepreneurship*, fall, 1985, p. 31.

<sup>8</sup>Ibid.

<sup>9</sup>1985 *Banking Survey*, Canadian Federation of Independent Business, Toronto, December 11, 1985.

<sup>10</sup>Ministry of Industry, Trade and Technology, internally commissioned research undertaken by the Creative Research Group.

<sup>11</sup>Ministry of Industry, Trade and Technology, research undertaken at the Companies Branch of the Ministry of Consumer and Commercial Relations.

<sup>12</sup>Ministry of Industry, Trade and Technology, internally commissioned research undertaken by the Creative Research Group.

<sup>13</sup>Ministry of Industry, Trade and Technology, research undertaken at the Companies Branch of the Ministry of Consumer and Commercial Relations.

<sup>14</sup>Ministry of Industry, Trade and Technology, internally commissioned research undertaken by the Creative Research Group.

<sup>15</sup>*Assistance to Business in Canada*, Federal Business Development Bank, 1984, p. 204.

<sup>16</sup>Clarkson Gordon, *An Evaluation of the Small Business Development Corporations Program*, February, 1984, p. i.

<sup>17</sup>Ibid. pp. 43-44.

<sup>18</sup>Statistics Canada and Ministry of Industry, Trade and Technology, Small Business Branch.

<sup>19</sup>DRIE, "Job Creation Process in Canada," undertaken with assistance by David Birch, October, 1984, p. 13.

<sup>20</sup>Andrew Szonyi and Greg Leach, Op. Cit.

<sup>21</sup>Jim Hatch, Larry Wynant and Mary Jane Grant, "Bank Lending Under the Small Businesses Loans Act," *Canadian Banker*, October, 1985, p. 30.

<sup>22</sup>Jim Hatch, Larry Wynant and Mary Jane Grant, *Government Loan Guarantee Programs for Small Business*, University of Western Ontario, July, 1985, p. 22.

<sup>23</sup>*Ibid.*, p. XII.

<sup>24</sup>*Ibid.*, p. 23.

<sup>25</sup>*Ibid.*

<sup>26</sup>Ministry of Industry, Trade and Technology, internally commissioned research undertaken by the Creative Research Group.

<sup>27</sup>*Ibid.*

<sup>28</sup>*Ibid.*

# 10 The Effects of Public Policy on the Small Business Community

## 10.1 *Government Programs and Small Business*

During the mid-eighties, the extraordinary resilience of the small business sector and its job creation power in a turbulent and changing economy caught the attention of policy makers. In February, 1985, the Minister of State for Small Business (itself a new governmental function resulting from a new awareness of these events) redefined the thrust of federal government policy "...to create an environment for the small business sector that is conducive to start-ups, investment and growth and is free of major obstacles." This followed an earlier assertion by the Prime Minister that "Our goal is to unfetter the private sector — especially the small business sector — so as to enhance that entrepreneurial spirit and creative genius that encourages risk, rewards productivity and creates new economic opportunities for Canada."<sup>1</sup>

The Province of Ontario is concerned with encouraging an environment that is sympathetic to the formation of new businesses.

The Small Business Branch of The Ministry of Industry, Trade and Technology seeks to effect a direct increase in the magnitude of new job opportunities available in Ontario through improving:

- the climate for small businesses in Ontario;
- the calibre of management skills employed in small business operation; and
- the prospects for survival and growth of small businesses in Ontario.

As part of this mission and in response to the identified needs of new and established small businesses, the Small Business Branch has organized its activities to provide advice and counsel and advocacy services on a province-wide basis.



## Advice and Counsel Services

Inadequate or unbalanced management skills are regularly identified<sup>2</sup> as the major cause of known small business failure in Canada. In an attempt to reduce the number of new small businesses that fail and accelerate the growth of all Ontario small businesses, the Branch provides:

- more than 200 free or low cost seminars across the province on such topics as how to start a small business, marketing, product costing and productivity improvement;
- approximately 150,000 copies of publications per year on a variety of business planning and management topics; and
- direct counselling to individuals.

The 304,000 small businesses in Ontario and the more than 100,000 annual new starts provide a client base of such magnitude that the Branch has turned to other institutions, local governments and community organizations to assist in meeting client demands. These local agents include:

- 13 business faculties on 12 university campuses that provide low cost consulting to small business;
- seven municipalities and community groups in Thunder Bay, London, the Region of Waterloo, Brantford, the City of York, Kanata and Cornwall that are providing various combinations of advisory services, low cost space and common services as part of the Community Small Business Centre program;
- five local women's organizations in Thunder Bay, Sudbury, London, Toronto and Ottawa that are addressing the unique needs of established and potential women small business owners;
- TVOntario, producers of *Frontrunners*, a series on successful Ontario small business with a low cost companion home-learning package; and
- pilot Self-Help Centres in ministry offices in Kitchener and Ottawa, testing the concept of a walk-in centre providing professional help, a quiet place to work, a complete array of business literature and computer services.

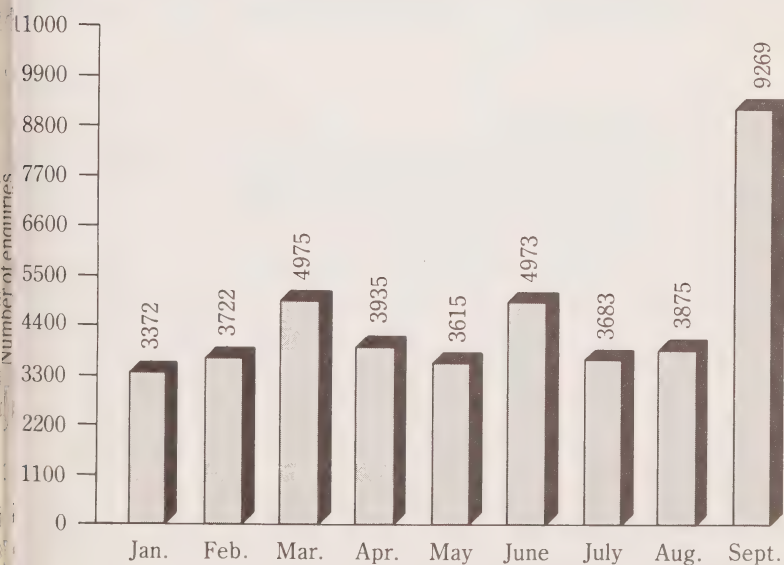


Access to these and other services is facilitated by the ministry's Domestic Offices Branch, with 45 field officers in 18 offices across the province, and the Small Business Hotline — a toll-free province-wide telephone service.

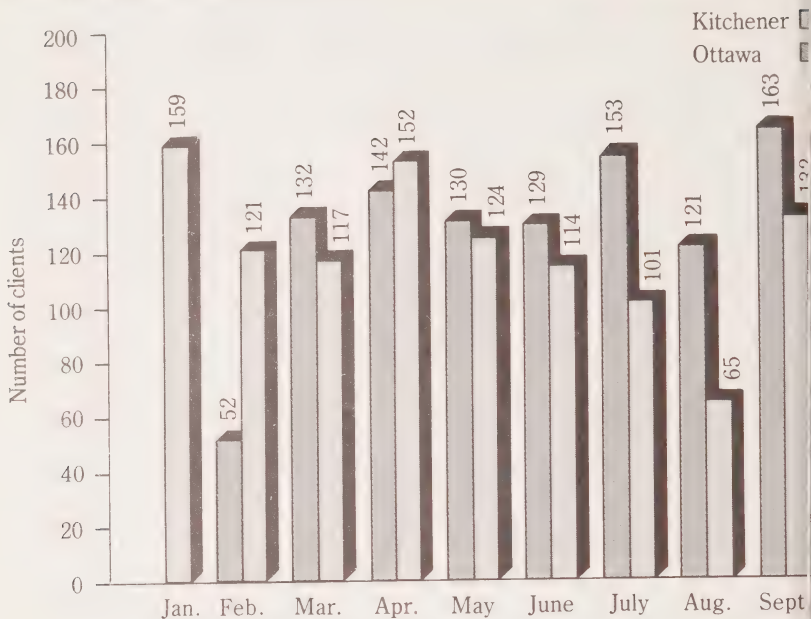
The focus of the majority of these services is the potential small business person or new small business. The emphasis is business planning to better prepare the owner-manager to deal with contingencies when they arise. Analysis of the age pattern of known business failures<sup>3</sup> indicates a rapid decline in the rate of business failures beyond year four, as they mature and management becomes more experienced.

As partial measures of the increasing importance Ontario small businesses place on planning and management skill development, pilot self-help centres are serving an average of 250 clients a month, the Small Business Hotline is providing callers with information on rules, regulations and available services at an annual rate of 85,000, as shown in Charts 10.1.1 and 10.1.2. More than 16,000 Ontarians have voluntarily registered as advisory service clients since April, 1985.

**Chart 10.1.1** *Small Business Hotline — Enquiries, 1986<sup>4</sup>*



**Chart 10.1.2** *Self-Help Centres, Enquiries by Month, 1986<sup>5</sup>*



### Small Business Advocacy

In the area of public policy action, it is estimated that the Small Business Advocacy unit of the Branch has identified and advocated on issues that will have a beneficial effect on small business in Ontario worth over \$500 million over the next four years.

Small Business Advocacy staff work on virtually all aspects of legislation and public policy that affect the owners of small firms and their employees. Currently there are projects under way in the fields of taxation, labour relations, business practices, financing, regulation and economic development. Recently, Small Business Advocacy has given special attention to the role of entrepreneurship in the development of Northern Ontario.

In the area of access to financing, Small Business Advocacy has participated in three recent initiatives. In concert with staff of the Ministries of Revenue and Treasury and Economics, the unit advised on broadening the Small Business Development Corporations program to help finance more firms in the service industries. Advocacy intervened with the federal government, leading to new rules permitting invest-

ents via Registered Retirement Savings Plans in Canadian private companies. Advocacy also helped design Ontario's New Ventures program of guaranteed loans for newly started companies.

Advocacy participated in the inter-ministerial working group on pay equity, which produced the green paper published in 1985. Subsequently, Small Business Advocacy studied the employment practices of small firms with a view to advising on pay equity legislation.

Along with the Ministry of Tourism and Recreation, Advocacy participated in a study of small business paperwork and regulation sponsored by the Federal Department of Regional Industrial Expansion. This study examined the problems experienced by small businesses, particularly firms in the tourism field.

Advocacy also advised the government on the question of the sale of beer and wine in independent grocery stores and demonstrated the substantial job creation benefits that would accrue if independent stores received licences to sell beer and wine.

Small Business Advocacy has helped shape Ontario and federal legislation over the past two years. While there are no formal arrangements for early access to legislation, procedures have evolved within the Ministry of Industry, Trade and Technology to alert Advocacy staff to actions that have a bearing on the small business community.

## 0.2 Deregulation

There are a number of movements towards the deregulation of financial institutions and vehicles in Canada. On July 3 of this year, Bill 87, the *Loan and Trust Corporations Act*, 1985, was withdrawn and a new first reading bill, the *Loan and Trust Corporations Act*, 1986, was introduced. Among other things, the new legislation provides for increased investment latitude for loan and trust companies, specifically participation in commercial lending. Small business owners have reason to be encouraged by this development as it may result in loan and trust companies investing more in small business than they presently do.

The 1985 Ontario Securities Commission report "A Regulatory Framework for Entry Into and Ownership of the Ontario Securities Industry" proposes that non-residents be allowed to own up to 30 per cent of a securities firm and that Canadian financial institutions be allowed to own at least that much (presently they are allowed only 10 per cent). The proposals should lead to greater access to capital and a more competitive securities environment, both of which will force securities firms to look more towards investment in small enterprises.

Finally, on July 4, 1986, the Pension Commission of Ontario

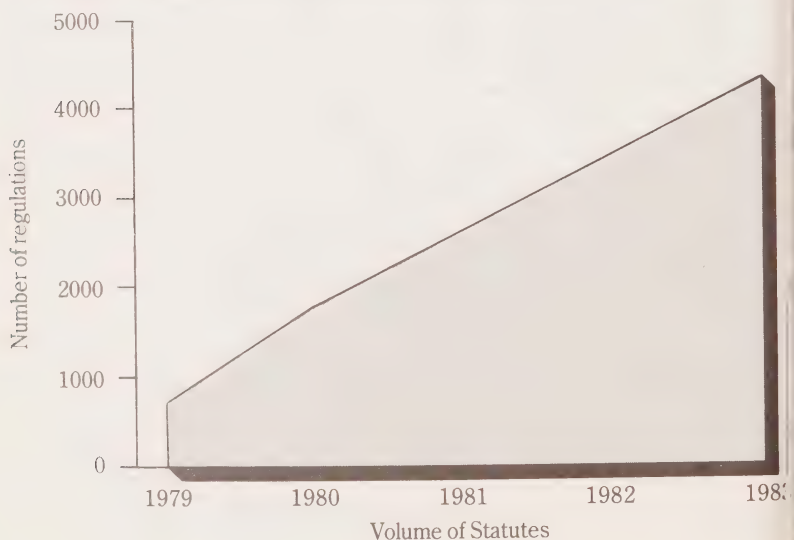
released "Policy Recommendations for the Regulation of Pension Fund Investments," which included as one of its proposals that pension fund managers be given greater freedom and flexibility in making investment decisions. Again, small business owners and entrepreneurs should be encouraged as pension fund managers are likely to now invest in smaller, and perhaps riskier, businesses.

## Regulatory Reform

In September, 1984, a Ministerial Task Force on Program Review was established by the federal government headed by the Deputy Prime Minister, the Hon. Eric Neilsen. Members of the task force, which included the Minister of Finance, the President of the Treasury Board and the Minister of Justice, comprised 19 mixed private/public sector study teams. These teams reviewed 989 programs and tabled their findings in December, 1985. The 146 federal regulatory and regulatory related programs reviewed cost \$2.9 billion in fiscal 1985-86 and involved 35,000 public servants. The Neilsen Task Force estimated the total cost of federal regulation to be at least \$30 billion a year.

Regulation, according to the Neilsen Task Force, is "...the imposition of rules by the state backed by the threat of sanctions with the objective of modifying or controlling private behaviour."<sup>4</sup> Deregulation:

**Chart 10.2.1** *New Ontario Government Regulations, Cumulative Growth, 1979-1983<sup>5</sup>*

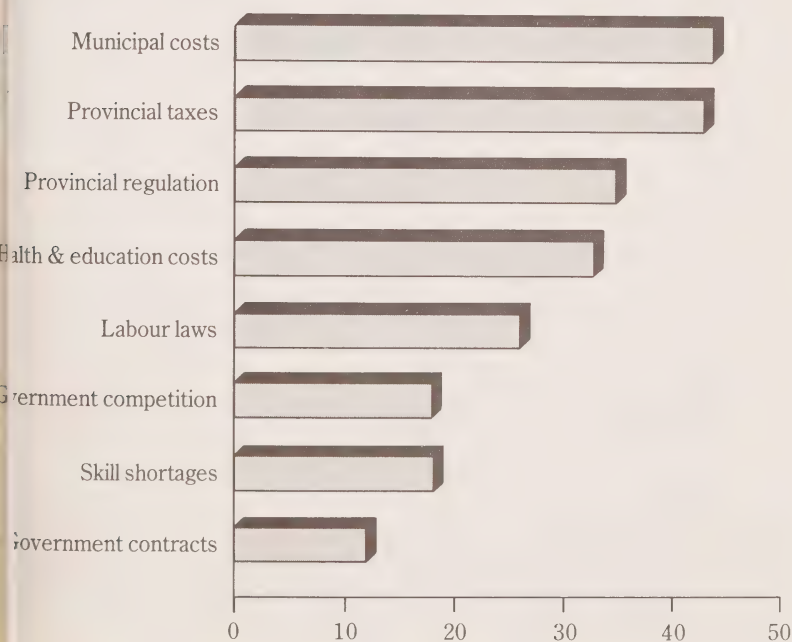


does not mean the total absence of regulation, but rather the reduction of control of such critical factors as prices, conditions of entry and exit and other competitive or market-related issues. As the Neilsen Report points out, "Such sectors [in the United States] as the airline, trucking, financial and communications industries are not truly deregulated at all."<sup>6</sup>

Twenty Ontario ministries have either a supportive or regulatory relationship with small business in the province; 27 federal departments and agencies tax, license, regulate or assist these firms; municipal government agencies and departments add a further level of government interface to the small business sector. Analysis of the Volume of Statistics tells the story in Chart 10.2.1.

A fall, 1984, survey of 500 small businesses recently established in Ontario revealed that 49 percent of those surveyed ranked "government paperwork" as their number two problem (behind "profitability" [60 percent] and ahead of "finding customers" [45 percent]). Chart 10.2.2 highlights these. Paperwork was the number one issue for all

**Chart 10.2.2** *What Troubles Ontario Entrepreneurs?*<sup>7</sup>





recently registered small business owners who employed staff, with 58 percent of them citing this as a major concern.<sup>8</sup>

A 1985 study of new business registrants in Ontario showed that, while recently incorporated firms spend 10 hours a week filling out government forms (7.5 hours in unincorporated firms), only 2.3 hours was devoted to this chore by the owners, the balance being undertaken by employees (the same for the owners of unincorporated firms).

A 1980 survey of firms employing 100 people or fewer found that dealing with government paperwork was an even greater burden than government regulation itself. Ontario small business owners believed that government paperwork rather than regulation was the greater burden (80 percent versus 20 percent) compared to Newfoundland (82 percent versus 18 percent), P.E.I. (91 percent versus 14 percent), Nova Scotia (82 percent versus 18 percent), New Brunswick (88 percent versus 12 percent) and Quebec (78 percent versus 18 percent).

In all provinces except Quebec, small business owners believed a greater paperwork burden was imposed upon them by the federal than the provincial government. Ontario's small business owners reckoned that their provincial government accounted for 31 percent of the time that they spent in dealing with all governmentally initiated paperwork (versus 74 percent in Quebec, 37 percent in Saskatchewan, 24 percent in Manitoba, 22 percent in British Columbia, 21 percent in New Brunswick and Newfoundland, 17 percent in Nova Scotia, 15 percent in Alberta and 13 percent in Prince Edward Island).

These studies have been conducted since 1975 to ascertain small business owners' perceptions of their single most important business problem. In that year, "government regulations and paperwork" ranked first relative to other business concerns. A measure of the progress that all levels of government have made in this area may be assumed from the fact that this issue, although remaining in the top five concerns, has been replaced by "inflation," "quality of labour" and "financing" in recent years. Federal employee deductions are seen as the major source of government paperwork in all industry sectors' size of firm and geographical location.<sup>9</sup>

A 1981 study of the impact of economic regulation on small business, commissioned by the Economic Council of Canada, debunked the popular myth that "small business is being crushed by regulation." The report pointed out that it was not the paperwork or the regulations that impacted on small business owners so much as the "... regulators who are too often narrow in purpose, who lack understanding of the effects of the regulations/paperwork they create or who have a very limited understanding of business."<sup>10</sup>



The same study also found (again, contradicting popular opinion) that, in 95 percent of cases, small businesses complied with economic regulations, initially absorbing the costs of compliance. Only 25 percent pass these costs on to their customers. Between one quarter and three quarters of the costs are passed on by 15 percent of the small businesses while 10 percent of this study group were found to discontinue or avoid the line of business affected.

Both the federal government and small business owners agree that some government regulation of business is both necessary and desirable. The issues change with the times but this common philosophy prevails.

What is needed, however, is frequent reappraisal of the behavior that society seeks to modify and an overhauling of how regulation is instituted. Specifically, research into small business owners' views suggests that the propensity towards paperwork creation must be curbed and government program officers should be trained to be more sensitive to the special requirements of small business owners.

Advocacy, referred to in the previous section, is complementary to regulation, and is an important method by which the government can ensure sensitivity to the concerns of the small business constituency. Among some of the options available:

## Reforming the Regulatory Process

Improving the process for developing new regulations by:

- mandatory analysis for proposed regulations;
- publication of regulatory agendas;
- institutionalizing Notice-and-Comment procedures;
- legislative oversight, incorporation of sunset provisions and mandatory review;
- regulatory flexibility, enacting simpler rules for smaller firms;
- exemption of small businesses from coverage of legislation.

## Selective Review

Identifying and eliminating or revising regulations that are outmoded, superfluous, unenforceable or duplicative. A follow-up system can help to ensure that revised regulations remain up to date.

### 3. Full or Partial Deregulation

Reducing or eliminating government control over a particular sector of industry or segment of economic activity. This can be accomplished in either an instantaneous or a phased manner.

### 4. Self-Regulation

The conferring of regulatory and disciplinary authority by the government to members of professional, trade or industry associations within a sector of economic activity. Supervisory authorities are usually accountable to the government for the conduct of their regulatory activities.

### 5. Contracting Out and Privatization

Conceptually similar to self-regulation, the professional, trade or industry association regulates an economic activity while the government supervises and retains an element of control through provisions with the private regulatory body.

### 6. Reducing Regulatory Costs

In addition to some of the options described above, de-emphasizing compliance standards and placing greater emphasis on fines, liability remedies, taxation and charges can reduce private costs. Incentives can be used to encourage or prompt activities that would otherwise have to be induced by compliance standards.

### 7. Re-orientation

Changing the shape or shifting the intent of regulations. This can be achieved, for example, by emphasizing preventative rather than remedial measures.

### 8. Inter-Governmental Regulations

Eliminating or limiting areas of overlap in jurisdiction and enforcement and contributing to regulatory reform by alleviating duplication, inconsistencies and conflict.

Obscured by the many other findings, pronouncements and recommendations to be found in the Ministerial Task Force on Program Review are two statements that may be seen as harbingers of an important attitudinal change for small business and the entrepreneurs who start, manage and build them in Canada. The report states, quite unequivocally, "The government recognizes the vital role of an efficient marketplace and a dynamic entrepreneurial spirit in generating the ongoing economic growth needed to improve the standard of living for Canadians and it recognizes that regulation should not impede those values without the most persuasive justification."<sup>11</sup>

## Chapter Notes

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# The State of Small Business



1987

Annual Report  
on Small Business  
in Ontario



# The State of Small Business



1987

## Annual Report on Small Business in Ontario

La Rapport du Comité des adjoints parlementaires  
pour les petites entreprises et les faits saillants du  
rapport annuel sur les petites entreprises en Ontario  
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## Minister of Industry, Trade and Technology

I am delighted to present the second annual report on *The State of Small Business*. This report contains a wealth of information on the contribution of small businesses to job creation, the performance of successful young companies, and innovative government responses to the challenges of assisting the small business sector.

The government of Ontario's commitment to stimulating and encouraging the entrepreneurial spirit continues unabated. Recent initiatives have included the formation of an entrepreneurship subcommittee of the Premier's Council, measures to bring entrepreneurship into the province's schools and universities, a network of self-help centres and an investment coordinator for small business established in Eastern Ontario. In Northern Ontario, entrepreneurship is the driving force of renewed community strategies for diversifying the region's economy and creating jobs.

The Committee of Parliamentary Assistants for Small Business and his government will continue to look for new and better ways to create a fertile environment in which entrepreneurship may grow and flourish, to the greater prosperity of all Ontarians.

A handwritten signature in dark ink, reading 'Monte Kwinter'.

Monte Kwinter  
Minister



## Ministre de l'Industrie, du Commerce et de la Technology

Je suis très heureux de présenter le deuxième rapport annuel sur *La situation des petites entreprises*. Ce rapport est une mine de renseignements sur la contribution des petites entreprises à la création d'emplois, le rendement des jeunes compagnies prospères et les réponses innovatrices du gouvernement aux défis que présente l'aide au secteur des petites entreprises.

Le gouvernement de l'Ontario reste prêt à stimuler et à encourager l'esprit d'entreprise. Les initiatives récentes portent notamment sur la formation d'un sous-comité du Conseil du premier ministre sur l'esprit d'entreprise, des mesures visant à introduire l'esprit d'entreprise dans les écoles et universités de la province, un réseau de centres d'entraide et un coordonnateur des investissements pour les petites entreprises établies dans l'Est de l'Ontario. Dans le Nord de l'Ontario, l'esprit d'entreprise est la force motrice des nouvelles stratégies communautaires instaurées pour diversifier l'économie de la région et créer des emplois.

Le Comité des adjoints parlementaires pour les petites entreprises et notre gouvernement vont continuer à rechercher de nouvelles façons de créer un milieu fertile où l'esprit d'entreprise pourra s'épanouir et se développer, pour le plus grand bien de tous les Ontariens.

Le ministre,

Monte Kwinter



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Committee of Parliamentary Assistants for Small Business

November 1, 1987

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3rd Floor, Hearst Block  
Queen's Park  
Toronto, Ontario

Dear Mr. Minister:

I am honoured to present to you the second annual report on *The State of Small Business*. This report, like its predecessor, contains significant research findings on the contributions small business enterprises and their owners make to Ontario's continuing economic prosperity.

The Committee of Parliamentary Assistants is proud to be the small business community's forum for dialogue with the government.

As Ontario's Small Business Advocate and on behalf of the committee, I thank you for the support you and your Ministry staff have given us.

Yours sincerely,

A handwritten signature in cursive script, reading "Dick Ferraro".

Dick Ferraro, MPP  
Chairman  
Committee of Parliamentary Assistants  
for Small Business



## Comité des Adjointes Parlementaires pour les Petites Entreprises

Le 1<sup>er</sup> novembre 1987

L'honorable Monte Kwinter  
Ministre  
Ministère de l'Industrie,  
du Commerce et de la Technologie  
8<sup>e</sup> étage, Édifice Hearst  
Queen's Park  
Toronto (Ontario)

Monsieur le ministre,

J'ai l'honneur de vous présenter le deuxième rapport annuel sur *La situation des petites entreprises*. Comme son prédécesseur, ce rapport contient d'importants résultats de recherche sur la contribution des petites entreprises et de leurs propriétaires au maintien de la prospérité économique de l'Ontario.

Le Comité des adjointes parlementaires pour les petites entreprises est fier de servir d'intermédiaire dans le dialogue entre le monde des petites entreprises et le gouvernement.

En tant que défenseur des petites entreprises de l'Ontario et au nom du Comité, je vous remercie de l'appui que vous nous avez accordé, vous-même et le personnel de votre ministère.

Veuillez agréer, Monsieur le ministre, l'expression de mes sentiments distingués.

Le président,  
Comité des adjointes parlementaires  
pour les petites entreprises,

Rick Ferraro  
Député

# Report of the Committee of Parliamentary Assistants for Small Business





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## Committee of Parliamentary Assistants for Small Business

Rick Ferraro, M.P.P.

Chairman

Ministry of Industry,  
Trade and Technology

Joseph Cordiano, M.P.P.

Ministry of Community  
and Social Services

Herb Epp, M.P.P.

Ministry of Treasury  
and Economics

Christine Hart, M.P.P.

Ministry of Health

Don Knight, M.P.P.

Management Board of  
Cabinet

Steven Offer, M.P.P.

Ministry of Consumer  
and Commercial Relations

Jean Poirier, M.P.P.

Ministry of Energy

Claudio Polsinelli, M.P.P.

Ministry of Labour

David Ramsay, M.P.P.

Ministry of Northern  
Development and Mines

Douglas Reycraft, M.P.P.

Ministry of Education

Larry South, M.P.P.

Ministry of Environment



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# The Report of the Committee of Parliamentary Assistants for Small Business

This is our second annual report to the Legislature on the State of Small Business in Ontario. Our task is, first of all, to take stock of the health of the small business community and its relations with the Government of Ontario. We are also casting our vision forward to identify the challenges and opportunities facing Ontario entrepreneurs and business owners. As politicians, the most demanding part of our assignment is to propose priorities for action on small business issues.

We have come through an unusual period in the political history of Ontario. For two years, important items on the legislative agenda were set out in advance in a highly formal and specific way. The government proceeded with great fidelity and energy to fulfill its commitments in the fields of health care, status of women, worker protection and job creation. As members of the Legislature and parliamentary assistants, members of the committee were well placed to scrutinize this legislation in light of the concerns of small business owners. In our view, the government met its reform objectives with sensitivity to small business.

In addition, the government took action to improve the preparation of new entrepreneurs, increase their chances of success and raise public awareness of the importance of small business in the province. The Speech from the Throne for 1987 announced measures to bring entrepreneurship into the province's schools and universities. It made small business the cornerstone of regional economic development, a strategy we recommended in our first annual report.

Although the small business community has benefitted from these positive measures and from consideration of its concerns in the drafting of legislation on pay equity and occupational health and safety, there is as yet no specific safeguard in Cabinet decision-making to protect the interests of small business owners. We identified this challenge a year ago and it remains to be addressed.

## A Safeguard for Small Business

The Minister of Industry, Trade and Technology asked the committee in November 1986 to come up with a strategy to reform the way the government makes policy and legislation that affect small business, and

the 1987 Speech from the Throne confirmed this mandate. We are now in a position to propose a safeguard the small business community needs.

Increasing regulation is a problem for small business owners. In fact, over 4,000 new Ontario regulations were introduced from 1982 to the present. A December 1986 federal-provincial study analyzed small business regulatory problems and paperburden. In other parts of Canada, small business owners said provincial governments accounted for a much smaller share of the problem than the Federal government. In Ontario, regulation was a more serious concern, with the Province equalling the Federal government as a source of regulatory costs and paperburden for small businesses.

Small business owners have said that regulating for big businesses doesn't fit the needs of small businesses. The enlightened response is to regulate with flexibility, fulfilling broader public policy goals and reducing the disproportionate impact on affected groups. This is possible, and reasonably easy to do. Some regulatory agencies in Ontario are leaders in this concept. Others apply techniques of analysis and adjustment less consistently and thoroughly.

Over the past year, the government has made Cabinet decision-making more systematic and professional. It has provided for consultation on the interests of groups such as native people, the disabled, seniors, francophones and women. All Cabinet submissions must include a statement on the economic impact of proposals. There is as yet, however, no provision for including in the economic impact statement the impact of proposed policy changes and new laws on the small business community, although data show that regulation is three times more costly for small businesses than it is for large businesses.

It is obvious to us as members of the Legislature and parliamentary assistants who also have responsibilities in the various ministries that small business needs formal status in the government's decision-making procedures. This will ensure that the needs of small businesses are regularly and thoughtfully reviewed when the government considers new initiatives that have significant impact on them. When powerful interests, whether within or outside the government, are at work, small business owners need effective advocacy within the system at the highest level.

We are proposing a simple system which will ensure that public policy goals are met and small businesses, the prime job generators in our economy and contributors of considerable wealth, are regulated appropriately.

If regulators consider, in an orderly fashion, several questions before developing policy, they can take care that the regulations they are developing will be neutral to small business. Including such questions in the economic impact statement appended to Cabinet submissions would help ensure that the proposed course of action would not adversely impact one of the province's major interest groups.

Experience shows that if questions are answered and analysis performed before a regulation is initiated, it is likely that most of the adverse impact on small businesses can be eliminated. Therefore, this would seem to be the easiest method for ensuring flexible regulation for small businesses.

In fact, what this would do is simply formalize the existing good practices which exist in many Ontario ministries and agencies and ensure that the best practices for regulation are followed throughout the entire public policy process. Without a formal system, tremendous energy is expended in trying to intercept proposals before they reach the Cabinet.

### **Key Impacts to Consider**

The statement would identify how many of the province's small businesses would likely be affected by the proposal. In addition, effects on sectors, industries, or regions would be shown. The initiator would be asked to assess whether there would be small business closures, whether profitability would be reduced and whether the proposal would create or cost jobs. The statement would ask the initiator to consider ways to reduce paperburden.

Finally, the initiator would be asked to explain why flexible regulation may have been rejected. As well, the statement would set out the results of consultations with small business, trade associations and individual owners, and a communications plan for disseminating information to small businesses. To assist in developing good impact statements, proposals which have an impact on small business should be reviewed by Ontario's Small Business Advocate with staff assistance from the Small Business Advocacy unit of the Ministry of Industry, Trade and Technology.

### **What It Can Accomplish**

The inclusion of small business in the economic impact statement would provide an orderly and systematic procedure for evaluating the effects of proposals before Cabinet as they affect small businesses. It would help



prevent excessive, inappropriate regulation of small businesses and release entrepreneurial energies which would otherwise be drained away on non-productive tasks.

In short, the statement would add small business to the current impacts which Cabinet considers. The process would be similar to that followed in the development of the pay equity legislation, which featured thorough consultation and negotiation with interested parties.

### **Improved Representation for Small Business**

Considering how the government and the small business community have interacted over the past year, we conclude that the government sought input from business and business associations found ways to express their views. At the same time, we think that more effective means must be found to represent the small business community. When the government is bent on meeting a strong public demand for action and has adopted a firm line of policy, such as we have seen in the fields of labour legislation and environmental protection, then it is vital that the business community work with government to find solutions.

We are convinced that a new forum for small business input is needed.

The Committee of Parliamentary Assistants has given associations and business owners an address in the Ontario Government. We have worked hard to provide coordination and consultation. We have found it hard, however, for the committee as a whole to meet with all of the business associations and leaders on a timely basis. This leads us to propose that the government establish a private sector Advisory Committee on Small Business to work with the Minister of Industry, Trade and Technology and the Committee of Parliamentary Assistants. We see this as a working forum that will help devise practical solutions on policy issues and legislation of the day. It would be fairly compact, well-informed and broadly representative. It would have impact and access at an effective political level.

### **Mandate and Achievements for Small Business**

In January 1987, membership in the committee grew from seven to eleven parliamentary assistants, embracing the Ministries of Northern Development and Mines, Education, Environment, Health and Management Board of Cabinet. The expanded committee continued to function under the four-point mandate originally set by Premier David Peterson:

1. to demonstrate to the business community that the Ontario Government has a positive, coordinated approach to small business owners;
2. to consider existing programs for small business and ensure that they are effective, accessible and designed to provide maximum benefit;
3. to develop a process for reviewing existing regulation and screening new legislation and rules to make them as responsive as possible to the realities of doing business; and
4. to advise the government on new ideas and initiatives in support of small business.

The committee has progress to report in all of these areas.

### **A Positive, Coordinated Approach**

A top priority of the committee is to provide a forum for small business owners and their associations to be heard in government. Consultation meetings organized by the Small Business Advocacy unit of the Ministry of Industry, Trade and Technology were an important point of access and gave the business community the opportunity to come together and formulate common positions. The Canadian Federation of Independent Business, Canadian Organization of Small Business, Canadian Manufacturers' Association, Ontario Chamber of Commerce, Retail Council of Canada, Retail Merchants' Association, Ontario Trucking Association and the Council of Ontario Construction Associations, among others, participated regularly in these meetings. Through this forum, the Committee of Parliamentary Assistants took account of informed small business views in its advice to the government. This channel of communication was highly productive on leading issues such as pay equity, workers' compensation reform and response to the Federal White Paper on tax reform.

### **Ontario Programs for Small Business**

The committee worked closely with Ministry and Ontario Development Corporation staff on the implementation of the New Ventures guaranteed loan program. In its first year of operation, participating lenders approved over 3,000 loan applications for a total value of over \$40 million. The popularity of New Ventures financing for new businesses was unprecedented. The program exceeded targets set for reaching women in business and the northern and eastern regions of the

province. Women accounted for 26 per cent of the borrowers; loans to the north and the east made up 29 per cent of the total funds advanced.

Also in the financing arena, the committee advised the government to broaden access to the Small Business Development Corporations program, a Ministry of Revenue initiative that had been restricted to only a few types of businesses. In the 1987 budget, the Ontario Treasurer announced that the SBDC program would expand to a wider range of firms in the service industries.

## **Responsive Legislation**

The committee and its Chairman, in his capacity as Ontario's Small Business Advocate, took strong positions on the province's pay equity legislation. The resulting Pay Equity Act is favourable to small firms while advancing the government's goal of improving the status of women in the job market. Firms having fewer than ten employees are exempt from the legislation and small businesses with fewer than 100 employees are permitted a substantial phase-in period for compliance. At the same time, the committee is optimistic that many small businesses will see voluntary compliance as good business practice and progressive employment policy. The committee notes that over 80 per cent of the owners of young Ontario companies agreed that the government should pass legislation to make sure that women and men in the private sector receive equal pay for work of equal value.

The committee worked closely with the Minister of Labour to ensure that small business interests would be protected and small business associations carefully consulted on new legislation. The Minister of Labour met with the committee on February 10, 1987 and gave his undertaking that the Ministry of Labour would consult comprehensively on amendments to the Employment Standards Act and workers' compensation reforms. Small business interests were subsequently considered in drafting the bill on occupational health and safety and legislation on plant closings and severance protection for workers. The small business community greeted proposals for reform of liquor regulations with broad support when the committee for the review of Ontario's liquor regulations, headed by Steven Offer (MPP Mississauga), a member of this committee, submitted its report to the Minister of Consumer and Commercial Relations.

## **New Ideas and Initiatives**

In its 1986 report on the State of Small Business, the committee recommended that the government make small business a central



element of regional development strategy. As Albert Shapero wrote:

Small businesses are personal and local. Small businesses are products of their local economies and cultures, and the business decisions made by their owners are permeated with consideration for the communities in which they live and carry on their businesses.<sup>1</sup>

Premier David Peterson underscored this logic when he said that the economic renewal of Northern and Eastern Ontario would depend on hundreds of small solutions emerging in local communities. In the 1987 Throne Speech, the government reinforced community-based initiatives with announcements of small business programs for Eastern Ontario. The Eastern Ontario Small Business Network will link new provincial services, such as local self-help offices, with existing resources.

The committee is also pleased to note that the Premier's Council has formed an entrepreneurship sub-committee headed by D.C. Webster, President of Helix Investments Ltd. The Premier's Council has endorsed proposals for a major convention, scheduled for May 1988, to promote entrepreneurship and investment in Ontario companies. The Council is also funding university and college-based centres for entrepreneurship. Building our long-term entrepreneurial strength demands the full support of our educational system. The committee applauds moves to introduce a high school curriculum in entrepreneurship now under development in the Ministry of Education in cooperation with local school boards. The Ministries of Industry, Trade and Technology and Education are also at work on a program of entrepreneur school visits to alert more Ontario young people to the option of a small business career.

For the coming months, we have given ourselves the job of developing a second major initiative in small business financing, building on the success of New Ventures which has provided start-up loans to thousands of small businesses. The challenge now is to find better ways of capitalizing businesses led by our best entrepreneurs to help them achieve their fast growth potential and become nationally and internationally competitive firms. In Peter Drucker's view, this is "the greatest help government can provide the entrepreneurial economy": to diagnose the most crippling ailment of expanding enterprises, their

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Albert Shapero, "Why Entrepreneurship?", The Ohio State University, 1984.

chronic cash shortage.<sup>2</sup>

We identify the field of tax reform as another crucial arena for small business in the days ahead. Ontario's Small Business Advocacy group has worked with business associations and expert advisors to develop common positions on the federal proposals. Tax reform is high on our agenda and we would make it a key issue for consultation with the new advisory body we are proposing. The Federal government and the provinces must work hard to devise a National Sales Tax that will be simple for small business owners to comply with and reduce rather than compound the burden of government paperwork.

## **The Second Annual Report on Small Business in Ontario**

Our first report to the Legislature in December 1986 concentrated on the remarkable, ever-rising tide of new business formations in Ontario. Business starts have doubled since the late 1970's, reaching 115,000 new registrations in the year ending March 1987, including almost 40,000 incorporations. The mass phenomenon of entrepreneurship we documented a year ago has continued and even strengthened as the Ontario economy surged forward. The job creation record of small businesses, which helped the province through the recession of 1981-82, has been sustained in the good years as well.

This year's report includes new information on the dynamic growth of small businesses in Ontario. It presents research findings on where the jobs are coming from, insights into the performance of our successful young companies, some remaining barriers to growth, and responsive government programs.

## **The Small Business Challenge**

We have tried hard, as members of a new government, to look forward and formulate a vision for small business. The newly-elected government has some similarities with and some obvious differences from the one in which we have served for the past two years. The new government is similar in that it has deep and serious commitments to reform in the fields of worker protection, environment, community-based services to the elderly and education. The people of Ontario have sought and have received open, progressive and responsive government.

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<sup>2</sup>Peter Drucker, "Our Entrepreneurial Economy", *Harvard Business Review*, January February, 1984.

This government has the will and the mandate to implement change. If there is a tendency to err, we are more concerned about the risk of insensitivity and lack of balance than false starts and indecision. Our job will be to keep the government attuned to small business concerns even as it proceeds to meet public expectations of reform. We know that a favourable environment for entrepreneurship is a precious resource in Ontario. We have a superb business climate and well-founded perceptions that this province is the best place to start a business.

We are convinced that preserving these conditions, particularly given a strong government with a dynamic agenda, requires new measures to put the machinery of government under self-discipline. The Government of Ontario must never become a high-handed juggernaut rolling over the interests of the small business community.

This leads us to propose, first, that the government reform the Cabinet decision-making system to provide for formal consultation and study of the impact on small business whenever new policy, legislation or regulations are considered that have significant effects on the small business community. Small business impact should be evaluated in the economic impact statements required in preparation for Cabinet decision-making.

Secondly, we are recommending a private sector Advisory Committee on Small Business to work with the Minister of Industry, Trade and Technology and the Committee of Parliamentary Assistants for Small Business on integrating the leading issues affecting small business with the government's legislative program.

Finally, we are making equity financing and tax reform our top new priorities for the year ahead. We will make it our business to pay attention to the federal-provincial negotiations on tax reform and work with the Treasurer of Ontario to ensure that the Canadian tax system preserves and strengthens the incentive to be an entrepreneur in Ontario and to invest in the future of our small businesses.



# Rapport du Comité des Adjoints Parlementaires pour les Petites Entreprises





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## Comité des Adjoints Parlementaires pour les Petites Entreprises

Rick Ferraro, député  
Président  
Ministère de l'Industrie,  
du Commerce et de la Technologie

Joseph Cordiano, député  
Ministère des Services sociaux  
et communautaires

Herb Epp, député  
Ministère du Trésor  
et de l'Économie

Christine Hart, député  
Ministère de la Santé

Don Knight, député  
Conseil de gestion

Steven Offer, député  
Ministère de la Consommation  
et du Commerce

Jean Poirier, député  
Ministère de l'Énergie

Claudio Polsinelli, député  
Ministère du Travail

David Ramsay, député  
Ministère du Développement  
du Nord et des Mines

Douglas Reycraft, député  
Ministère de l'Éducation

Larry South, député  
Ministère de l'Environnement



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# Rapport du comité des adjoints parlementaires pour les petites entreprises

Voici notre deuxième rapport annuel à l'Assemblée législative sur la situation des petites entreprises en Ontario. Notre tâche consiste, avant tout, à évaluer la situation des petites entreprises et leurs relations avec le gouvernement de l'Ontario. Nous jetons également un regard sur l'avenir afin d'identifier les défis et les opportunités qui attendent les entrepreneurs et les propriétaires d'entreprise de l'Ontario. En tant que politiciens, la partie la plus difficile de notre tâche consiste à proposer des priorités d'action dans le domaine des petites entreprises.

Nous venons de traverser une période inhabituelle dans l'histoire politique de l'Ontario. Pendant deux ans, les points importants du programme législatif ont été établis à l'avance d'une façon très formelle et précise. Le gouvernement a entrepris avec beaucoup de fidélité et d'énergie de remplir ses engagements dans le domaine de la santé, de la condition féminine, de la protection des travailleurs et de la création d'emplois. En tant que députés et adjoints parlementaires, les membres du Comité étaient particulièrement bien placés pour étudier la législation dans la perspective des propriétaires de petites entreprises. À notre avis, le gouvernement a atteint ses objectifs de réforme en restant sensible aux problèmes des petites entreprises.

En outre, le gouvernement a pris des mesures pour améliorer la préparation des nouveaux entrepreneurs, augmenter leurs chances de succès et rendre le public plus conscient de l'importance des petites entreprises dans la province. Le Discours du Trône de 1987 annonçait les mesures visant à introduire l'esprit d'entreprise dans les écoles et universités de l'Ontario. Il faisait des petites entreprises la pierre angulaire de l'expansion économique régionale, stratégie que nous recommandée dans notre premier rapport annuel.

Bien que les petites entreprises aient bénéficié de ces mesures positives et de la prise en compte de leurs préoccupations lors de la rédaction de la législation sur l'équité salariale et la santé et la sécurité au travail, il n'y a toujours pas de garantie particulière dans le processus de prises de décision du Conseil des ministres pour protéger les intérêts des propriétaires de petites entreprises. Nous avons signalé cette situation il y a un an et elle reste toujours en suspens.

## Une garantie pour les petites entreprises

Le ministre de l'Industrie, du Commerce et de la Technologie a demandé au Comité en novembre 1986 de lui présenter une stratégie en vue de réformer la façon dont le gouvernement élabore les politiques et les lois qui touchent les petites entreprises et le Discours du Trône de 1987 a confirmé ce mandat. Nous sommes maintenant en mesure de proposer la garantie dont les propriétaires de petites entreprises ont besoin.

La réglementation croissante pose des problèmes aux propriétaires de petites entreprises. En fait, plus de 4 000 nouveaux règlements de l'Ontario ont été introduits depuis 1982. Une étude fédérale-provinciale de décembre 1986 a analysé les problèmes de réglementation et de paperasse touchant les petites entreprises. Dans d'autres régions du Canada, les propriétaires de petites entreprises ont déclaré que le gouvernement provincial était beaucoup moins gênant que le gouvernement fédéral. En Ontario, la réglementation était un problème plus grave, car on estimait que la province était à égalité avec le gouvernement fédéral au niveau du coût de la réglementation et de la paperasse administrative pour les petites entreprises.

Les propriétaires de petites entreprises ont déclaré que les règlements visant les grosses entreprises ne répondent pas aux besoins des petites entreprises. La solution éclairée consisterait à réglementer de façon souple, afin de réaliser les objectifs d'ensemble des politiques publiques et d'en réduire les effets disproportionnés sur les groupes concernés. C'est non seulement possible, mais aussi assez facile à réaliser. Certains organismes de réglementation de l'Ontario sont des pionniers de ce concept. D'autres appliquent les techniques d'analyse et de rajustement de façon moins uniforme et moins minutieuse.

Au cours de la dernière année, le gouvernement a rendu le processus gouvernemental de prises de décision plus systématique et professionnel. Il a prévu des consultations concernant les intérêts de groupes tels que les autochtones, les personnes handicapées, les personnes âgées, les francophones et les femmes. Toutes les propositions au Conseil des ministres doivent contenir une déclaration concernant leur impact économique. Pour l'instant, toutefois, on ne prévoit toujours pas de déclaration concernant l'impact des changements de politique proposés et des nouvelles lois sur les petites entreprises, bien que les données montrent que la réglementation coûte trois fois plus cher aux petites entreprises qu'aux grandes.

Il nous semble évident, en tant que députés et adjoints parlementaires exerçant certaines responsabilités dans les divers

ministères, que les petites entreprises doivent être représentées officiellement dans le processus gouvernemental de prises de décision. Ainsi, les besoins des petites entreprises seront examinés régulièrement et soigneusement chaque fois que le gouvernement envisage de prendre de nouvelles initiatives qui les touchent de près. Lorsqu'il y a des intérêts puissants en jeu, que ce soit à l'intérieur ou à l'extérieur du gouvernement, les propriétaires de petites entreprises ont besoin d'avoir un défenseur efficace au plus haut niveau au sein du système.

Nous proposons un système simple qui assurera la réalisation des objectifs des politiques publiques et la réglementation appropriée des petites entreprises, qui sont les principales créatrices d'emplois dans notre économie et productrices d'une richesse considérable.

Si les fonctionnaires chargés de préparer les règlements se posent systématiquement plusieurs questions avant d'élaborer leurs politiques, ils pourront s'assurer que les règlements qu'ils élaborent ne nuiront pas aux petites entreprises. Inclure ces questions dans une Déclaration d'impact économique sur les petites entreprises annexée aux soumissions au Conseil des ministres permettrait de s'assurer que la voie proposée n'aura pas d'effet néfaste sur l'un des principaux groupes d'intérêt de la province.

L'expérience montre qu'en répondant à ces questions et en effectuant l'analyse *avant* d'amorcer le processus de réglementation, il est possible d'éliminer la plupart des effets néfastes sur les petites entreprises. Par conséquent, il semblerait que ce soit la méthode la plus facile pour assurer une réglementation souple aux petites entreprises.

En fait, cette mesure ne ferait que rendre officielle les bonnes pratiques qui existent déjà dans de nombreux ministères et organismes ontariens et étendre l'application des meilleures méthodes de réglementation à l'ensemble du processus des politiques publiques. Dans un système officiel, on consacre énormément d'efforts à essayer d'intercepter des propositions avant qu'elles parviennent au Conseil des ministres.

## **Facteurs clés à considérer**

La déclaration devrait indiquer combien de petites entreprises de la province seraient vraisemblablement touchées par la proposition. En outre, elle indiquerait également les effets sur les divers secteurs, industries et régions. L'auteur de la réglementation devrait évaluer le risque de fermeture de petites entreprises, de réduction de leur rentabilité, ainsi que la probabilité de création ou de suppression



d'emplois. La déclaration demanderait à l'auteur de la réglementation de trouver des moyens de réduire la paperasse administrative.

Enfin, l'auteur devrait expliquer pourquoi une réglementation plus souple a été rejetée. En outre, la déclaration indiquerait les résultats des consultations tenues avec le secteur des petites entreprises, les associations commerciales et des propriétaires d'entreprise, ainsi qu'un plan de communications en vue de diffuser les renseignements aux petites entreprises. Pour aider les responsables à préparer de bonnes déclarations d'impact, les propositions ayant un impact sur les petites entreprises devraient être examinées par le défenseur des petites entreprises, avec l'aide du personnel de l'Unité de défense des petites entreprises du ministère de l'Industrie, du Commerce et de la Technologie.

### **Que peut donner cette déclaration**

L'inclusion des petites entreprises dans la Déclaration d'impact constituerait une procédure ordonnée et systématique d'évaluation des effets des propositions présentées au Conseil des ministres sur les petites entreprises. Elle permettrait d'éviter une réglementation excessive et inappropriée des petites entreprises et de libérer des énergies créatrices qui seraient autrement gaspillées à des tâches non productives.

En bref, la déclaration ajouterait les petites entreprises à la liste actuelle d'impacts que le Conseil des ministres doit considérer. Le processus serait semblable à celui qui a été suivi lors de la préparation de la législation sur l'équité salariale, qui comportait des consultations et des négociations poussées avec les groupes intéressés.

### **Une meilleure représentation pour les petites entreprises**

Si l'on considère les relations entre le gouvernement et les petites entreprises au cours de l'année passée, nous concluons que le gouvernement a cherché à obtenir le point de vue des entreprises et que les associations d'entreprises ont trouvé des moyens d'exprimer leur opinion. En même temps, nous pensons que l'on doit trouver des moyens plus efficaces pour représenter les petites entreprises. Lorsque le gouvernement est déterminé à satisfaire aux demandes pressantes du public et qu'il a adopté une politique ferme, comme nous l'avons vu dans les domaines de la législation du travail et de la protection de l'environnement, il est vital que les petites entreprises collaborent avec le gouvernement pour trouver des solutions.

Nous sommes convaincus qu'il nous faut un nouveau forum pour faire entendre le point de vue des petites entreprises.

Le Comité des adjoints parlementaires pour les petites entreprises a donné aux associations et aux propriétaires d'entreprise une adresse au gouvernement de l'Ontario. Il a travaillé fort au niveau de la coordination et des consultations. Il a toutefois été difficile pour le Comité dans son ensemble de rencontrer toutes les associations d'entreprises et leurs dirigeants de façon opportune. Ceci nous amène à proposer que le gouvernement crée un Comité consultatif sur les petites entreprises dans le secteur privé pour aider le ministre de l'Industrie, du Commerce et de la Technologie et le Comité des adjoints parlementaires. Nous l'envisageons comme un forum de discussion qui aidera à trouver des solutions pratiques concernant les politiques et la législation en cours de préparation. Ce serait un forum assez restreint, bien informé et largement représentatif, qui aurait un impact et l'accès à un niveau politique efficace.

### **Mandat du Comité et réalisations en faveur des petites entreprises**

En janvier 1987, l'effectif du Comité est passé de sept à onze adjoints parlementaires, avec l'addition des adjoints parlementaires des ministres du Développement du Nord et des Mines, de l'Éducation, de l'Environnement, de la Santé et du Conseil de gestion. Le Comité élargi continue de fonctionner en vertu du mandat en quatre points qui lui a été confié au départ par le premier ministre David Peterson :

1. démontrer au monde des affaires que le gouvernement de l'Ontario traite les propriétaires de petites entreprises selon une perspective positive et coordonnée;
2. étudier les programmes actuels destinés aux petites entreprises et s'assurer qu'ils sont efficaces, accessibles et conçus pour donner le maximum d'avantages;
3. mettre sur pied un mécanisme de révision des règlements existants et vérifier les nouvelles législations et règles pour les rendre aussi sensibles que possible aux réalités du monde des affaires; et
4. conseiller au gouvernement de nouvelles idées et de nouvelles mesures à l'appui des petites entreprises.

Le Comité rapporte des progrès dans chacun de ces domaines.

## **Une perspective positive et coordonnée**

L'une des principales priorités du Comité est d'offrir un forum aux propriétaires de petites entreprises et à leurs associations afin qu'ils puissent se faire entendre du gouvernement. Les réunions de consultation organisées par l'Unité de défense des petites entreprises du ministère de l'Industrie, du Commerce et de la Technologie constituaient un important point d'accès au gouvernement et ont donné aux représentants du monde des affaires l'occasion de se réunir et de formuler des positions communes. La Fédération canadienne de l'entreprise indépendante, la Canadian Organization of Small Business, l'Association des manufacturiers canadiens, la Chambre de commerce de l'Ontario, le Conseil canadien du commerce de détail, la Retail Merchants' Association, l'Ontario Trucking Association et le Council of Ontario Construction Associations, entre autres, ont participé régulièrement à ces réunions. Grâce à ce forum, le Comité des adjoints parlementaires a pu tenir compte des points de vue informés des petites entreprises dans ses conseils au gouvernement. Cette voie de communication s'est révélée très productive dans les principaux domaines, tels que l'équité salariale, la réforme des accidents du travail et la réponse au Livre blanc du gouvernement fédéral sur la réforme fiscale.

## **Programmes ontariens destinés aux petites entreprises**

Le Comité a travaillé en étroite collaboration avec le personnel du ministère et de la Société de développement de l'Ontario à la mise en oeuvre du programme de prêts garantis Nouvelles Entreprises. Au cours de la première année du programme, les prêteurs participants ont approuvé plus de 3 000 demandes de prêts d'une valeur totale de plus de 40 millions de dollars. La popularité de ce programme de financement auprès des nouvelles entreprises est sans précédent. Le programme a dépassé ses objectifs en matière de femmes propriétaires d'entreprise et de création d'entreprises dans les régions Nord et Est de la province. Les femmes représentaient 26 pour 100 des emprunteurs; les prêts approuvés dans les régions Nord et Est représentaient 29 pour 100 des fonds totaux avancés.

D'autre part, toujours dans le domaine financier, le Comité a conseillé au gouvernement d'élargir l'accès au programme des Compagnies pour l'expansion des petites entreprises, initiative du ministère du Revenu qui a jusqu'à présent été limitée à certaines entreprises particulières. Dans le budget de 1987, le trésorier de



l'Ontario a annoncé que le programme des CEPE serait étendu à une gamme plus vaste d'entreprises dans les industries de services.

### **Une législation sensible aux besoins des petites entreprises**

Le Comité et son président, dans son rôle de défenseur des petites entreprises de l'Ontario, ont pris des positions fermes concernant la législation provinciale sur l'équité salariale. En conséquence, la *Loi sur l'équité salariale* est favorable aux petites entreprises, tout en faisant progresser l'objectif gouvernemental d'améliorer la situation des femmes sur le marché du travail. Les entreprises ayant moins de dix employés sont exemptées de la législation et les petites entreprises ayant moins de 100 employés sont autorisées à allonger quelque peu la période de mise en application de la loi. Par ailleurs, le Comité est persuadé que de nombreuses petites entreprises considéreront l'application volontaire de la loi comme une bonne pratique commerciale et une politique d'emploi progressiste. Le Comité prend note que plus de 80 pour 100 des propriétaires de jeunes compagnies de l'Ontario étaient d'accord pour que le gouvernement adopte une loi pour faire en sorte que les femmes et les hommes du secteur privé reçoivent un salaire égal pour un travail d'égale valeur.

Le Comité a travaillé en étroite collaboration avec le ministre du Travail afin de s'assurer que les intérêts des petites entreprises seraient protégés et que les associations de petites entreprises seraient soigneusement consultées au sujet de la nouvelle législation. Le ministre du Travail a rencontré le Comité le 10 février 1987 et indiqué que le ministère du Travail allait tenir des consultations approfondies concernant les modifications apportées à la *Loi sur les normes d'emploi* et la réforme des accidents du travail. Les intérêts des petites entreprises ont par la suite été pris en considération lors de la rédaction du projet de loi sur la santé et la sécurité au travail et de la législation sur les fermetures d'usine et la protection des travailleurs en cas de licenciement. Les petites entreprises ont apporté un large soutien aux propositions de réforme des règlements concernant les boissons alcooliques lorsque le comité d'étude des règlements de l'Ontario sur les boissons alcooliques, dirigé par Steven Offer (député de Mississauga), membre de ce comité, a remis son rapport au ministre de la Consommation et du Commerce.

## Idées et initiatives nouvelles

Dans son rapport de 1986 sur la situation des petites entreprises, le Comité avait recommandé que le gouvernement fasse des petites entreprises la pierre angulaire de sa stratégie de développement régional. Comme l'écrit Albert Shapero :

Les petites entreprises sont personnelles et locales. Les petites entreprises sont des produits des économies et des cultures locales et les décisions d'affaires prises par leurs propriétaires sont empreintes d'une certaine considération pour les collectivités dans lesquelles ils vivent et poursuivent leurs activités commerciales.<sup>1</sup>

Le premier ministre David Peterson a souligné la logique de ce raisonnement lorsqu'il a déclaré que le renouveau économique du Nord et de l'Est de l'Ontario dépendrait de centaines de petites solutions qui prendraient naissance dans les collectivités locales. Dans le Discours du Trône de 1987, le gouvernement a renforcé les initiatives de la collectivité en annonçant des programmes destinés aux petites entreprises de l'Est de l'Ontario. Le Réseau des petites entreprises de l'Est de l'Ontario reliera les nouveaux services provinciaux, tels que les bureaux d'entraide locaux, aux ressources existantes.

Le Comité est aussi heureux de noter que le Conseil du premier ministre a formé un sous-comité sur l'esprit d'entreprise dirigé par D.C. Webster, président d'Helix Investments Ltd. Le Conseil du premier ministre a endossé les propositions en faveur de la tenue d'un important congrès, prévu pour mai 1988, afin de promouvoir l'esprit d'entreprise et les investissements dans les compagnies de l'Ontario. Le Conseil finance également des centres de développement de l'esprit d'entreprise dans les universités et les collèges. Nous avons besoin du soutien total de notre système d'éducation pour nous donner un solide esprit d'entreprise à long terme. Le Comité applaudit les mesures visant à introduire dans les écoles secondaires le programme d'étude sur l'esprit d'entreprise qui est maintenant en cours de préparation au ministère de l'Éducation, en collaboration avec les conseils scolaires locaux. Le ministère de l'Industrie, du Commerce et de la Technologie et le ministère de l'Éducation travaillent également à un programme de visites scolaires par des entrepreneurs afin d'ouvrir les yeux aux jeunes élèves de l'Ontario à la possibilité d'une carrière comme propriétaire de petite entreprise.

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<sup>1</sup>Albert Shapero, "Why Entrepreneurship?", The Ohio State University, 1984.

Dans les mois qui viennent, nous nous sommes donnés pour tâche de mettre sur pied une deuxième initiative importante en matière de lancement des petites entreprises, en profitant de la réussite du programme Nouvelles Entreprises qui a fourni des prêts de démarrage à des milliers de petites entreprises. Il s'agit maintenant de trouver de meilleurs moyens de fournir des capitaux aux entreprises dirigées par les meilleurs de nos entrepreneurs afin de les aider à réaliser leur potentiel de croissance rapide et de devenir des compagnies concurrentielles sur la plan national et international. Selon le point de vue de Peter Drucker, c'est là "où le gouvernement peut apporter la plus grande aide dans une économie d'entreprise" : soulager le mal le plus paralysant des entreprises en expansion, leur manque chronique de capitaux.<sup>2</sup>

Nous considérons le domaine de la réforme fiscale comme un autre domaine crucial pour les petites entreprises dans la période à venir. Le groupe de défense des petites entreprises de l'Ontario a collaboré avec des associations d'affaires et des experts-conseils pour préparer des propositions communes concernant les propositions fédérales. La réforme fiscale fait partie de nos priorités et nous en ferons un sujet principal de consultation pour le nouvel organisme consultatif que nous proposons. Le gouvernement fédéral et les provinces doivent s'efforcer de mettre au point une taxe de vente nationale qui soit simple à appliquer pour les propriétaires de petites entreprises et qui réduise plutôt que d'augmenter le fardeau de la paperasse gouvernementale.

## **Le deuxième rapport annuel sur les petites entreprises en Ontario**

Dans notre premier rapport à l'Assemblée législative de l'Ontario en décembre 1986 s'était concentré sur la vague remarquablement croissante de création de nouvelles entreprises en Ontario. Les fondations d'entreprise ont doublé depuis la fin des années 1970 pour atteindre 115 000 nouveaux enregistrements au cours de l'exercice se terminant en mars 1987, dont près de 40 000 constitutions en compagnie. Le phénomène de masse de l'esprit d'entreprise que nous avons signalé il y a un an s'est poursuivi et s'est même renforcé lorsque l'économie de l'Ontario a fait un bon en avant. Le rythme des créations d'emplois dans les petites entreprises, qui avait aidé la province à

<sup>2</sup> Peter Drucker, "Our Entrepreneurial Economy", *Harvard Business Review*, janvier-février 1984.

traverser la récession de 1981-1982, s'est maintenu au cours des années prospères qui ont suivi.

Le rapport de cette année contient de nouveaux renseignements sur la croissance dynamique des petites entreprises en Ontario. Il présente les résultats de recherches sur la provenance des emplois, des explications sur le rendement de nos jeunes compagnies prospères, quelques-uns des obstacles restants à la croissance et les programmes correspondants du gouvernement.

## **Le défi des petites entreprises**

Nous nous sommes efforcés, en tant que membres d'un nouveau gouvernement, de nous tourner vers l'avenir et de formuler une nouvelle vision pour les petites entreprises. Le gouvernement qui vient d'être élu a certaines ressemblances et certaines différences évidentes avec celui où nous avons servi au cours des deux dernières années. Le nouveau gouvernement est semblable en ce sens qu'il est profondément et sérieusement engagé à introduire des réformes dans les domaines de la protection des travailleurs, de l'environnement, des services communautaires aux personnes âgées et de l'éducation. La population de l'Ontario a voulu avoir et a obtenu un gouvernement ouvert, progressiste et sensible.

Le nouveau gouvernement a la volonté et le mandat de mettre en oeuvre certains changements. Et même si nous faisons parfois erreur, nous nous inquiétons moins des faux départs et de certaines indécisions que de prendre le risque d'être insensibles et de manquer d'équilibre. Notre tâche consistera à garder le gouvernement au courant des préoccupations des petites entreprises alors qu'il appliquera les réformes que le public attend de lui. Nous savons qu'un climat favorable à l'esprit d'entreprise est une ressource précieuse pour l'Ontario. Nous avons un climat d'affaires superbe et notre province est perçue, à juste titre, comme le meilleur endroit pour lancer une entreprise.

Nous sommes convaincus que pour préserver ces conditions, surtout dans le contexte d'un gouvernement à l'ordre du jour dynamique, nous devons adopter de nouvelles mesures afin de forcer la machine gouvernementale à l'autodiscipline. Il ne faut jamais que le gouvernement de l'Ontario devienne un mastodonte arbitraire qui écraserait les intérêts des petites entreprises.



Ceci nous amène à proposer, tout d'abord, que le gouvernement réforme le processus de prise de décision du Conseil des ministres de façon à prévoir des consultations formelles et une étude d'impact sur les petites entreprises à chaque fois que l'on envisage de nouvelles politiques, lois ou règlements qui auront des effets importants sur les petites entreprises.

On devrait indiquer l'impact des petites entreprises dans les Déclarations d'impact économique, exigées lors de la préparation des prises de décision au Conseil des ministres.

Deuxièmement, nous recommandons la création d'un Comité consultatif sur les petites entreprises dans le secteur privé pour collaborer avec le ministre de l'Industrie, du Commerce et de la Technologie et le Comité des adjoints parlementaires pour les petites entreprises à l'intégration des principales questions affectant les petites entreprises au programme législatif du gouvernement.

Enfin, nous faisons du financement par actions et de la réforme fiscale nos nouvelles priorités pour l'année à venir. Nous prendrons sur nous de suivre de près les négociations fédérales-provinciales sur la réforme fiscale et nous collaborerons avec le trésorier de l'Ontario pour nous assurer que le système fiscal canadien préserve et renforce la stimulation à devenir un entrepreneur en Ontario et à investir dans l'avenir de nos petites entreprises.





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# Points Saillants du Rapport Annuel sur la Situation des Petites Entreprises en Ontario

**Les petites entreprises sont la principale force motrice de la création d'emplois.** Au cours de la période 1976-1984, les emplois ont augmenté de 8 pour 100 dans l'économie canadienne, mais le nombre des emplois dans les entreprises comptant moins de 20 personnes a augmenté de 25 pour 100, ce qui représente 87 pour 100 des nouveaux emplois créés pendant cette période. Les grandes entreprises (employant plus de 500 personnes) ont eu une croissance de 12 pour 100, soit 46 pour 100 des nouveaux emplois.

**La principale source de nouveaux emplois provient de la création de petites entreprises.** Les nouvelles entreprises employant moins de 5 personnes ont connu une augmentation des emplois de 94 pour 100 dans leur catégorie, tandis que les fermetures n'ont éliminé que 41 pour 100 de cette croissance. Les entreprises qui existaient déjà au début de la période ont toutes eu un bon rendement, les expansions ayant entraîné une croissance de 46 pour 100 au niveau de l'emploi tandis que les contractions entraînaient des pertes d'emplois de 11 pour 100. Toutes les autres catégories d'entreprises ont obtenu les résultats bien moindres en comparaison.

**La grande majorité des nouveaux emplois au Canada proviennent d'un nombre remarquablement restreint d'entreprises dynamiques.** Moins de 5 pour 100 des entreprises employant moins de 20 personnes en 1976 étaient passées dans une catégorie supérieure en 1984 — mais elles représentaient 46 pour 100 de tous les nouveaux emplois créés. Ce groupe d'élite se retrouvait d'une façon disproportionnée dans le secteur manufacturier et dans les provinces de l'Ontario et de l'Alberta. Les moyennes entreprises qui ont devenues de grandes entreprises au cours de la même période sont très peu nombreuses (0,04 pour 100 du nombre total d'entreprises), mais elles avaient créé 19 pour 100 des nouveaux emplois.

**Les industries de services sont devenues le principal créateur d'emplois.** Les emplois dans ce secteur ont augmenté de 27 pour 100 au cours de 1976-1984, ce qui représentait 75 pour 100 des nouveaux emplois. Cette performance extraordinaire était due aux entreprises ayant moins de 20 salariées, qui ont connu une

croissance de 41 pour 100. Le domaine le plus actif en matière de création d'emplois est le domaine des services du secteur privé, où il y a eu une croissance d'emplois de 57 pour 100 due à la création de nouvelles entreprises — un taux de création bien plus élevé que n'importe quel autre secteur de l'économie. Le plus grand domaine de croissance est le secteur des services aux entreprises, qui a connu une augmentation d'emplois de 87 pour 100 en 1976-1984 et qui représente maintenant 4 pour 100 des emplois dans le domaine des services. Les autres secteurs ayant eu de bons résultats étaient les services professionnels, ainsi que les divertissements et les loisirs, qui ont tous deux connu des augmentations de près de 40 pour 100 au cours de cette période.

**Les petites entreprises contribuent davantage à l'économie par dollar de recettes que les moyennes et grandes entreprises.** Elles produisent un revenu représentant 29 pour 100 de leurs recettes, au lieu de 20 pour 100 pour le reste.

**Les petites entreprises ont généralement de meilleurs résultats dans les secteurs où les grosses entreprises sont solides.** Dans le domaine manufacturier, les secteurs dominés par les grosses entreprises ont connu une croissance de 2 pour 100, par rapport à -7 pour 100 pour les secteurs dominés par les petites entreprises, le nombre d'emplois dans les entreprises employant moins de 20 personnes ayant augmenté de 49 pour 100 dans le premier secteur et de 40 pour 100 dans le second. La principale exception à cette règle vient des grandes entreprises de services, où les secteurs dominés par les grosses entreprises sont constitués essentiellement d'organismes gouvernementaux dans lesquels les emplois ont augmenté d'un maigre 16 pour 100 en huit ans par rapport à 55 pour 100 dans les entreprises correspondantes du secteur privé.

**Les femmes et les jeunes sont fortement représentés parmi les propriétaires d'entreprise.** Le pourcentage de femmes parmi les propriétaires d'entreprises canadiens est passé de 13 pour 100 en 1970 à plus de 24 pour 100 en 1984. Au cours de l'année passée, 26 pour 100 des prêts Nouvelles Entreprises ont été accordés à des femmes. Plus de 40 pour 100 des nouvelles compagnies de l'Ontario sont dirigées par des personnes âgées de moins de 30 ans.

**Une nouvelle étude trace le profil des entrepreneurs qui dirigent les compagnies vedettes de l'Ontario — les jeunes entreprises qui ont connu la plus forte croissance au niveau des ventes et des emplois.** Ce sont presque tous des hommes, assez âgés, diplômés de l'université, des fils aînés et des enfants

entrepreneurs ou de cadres supérieurs. Ils ont eu une carrière de cadre, de gérant ou de propriétaire et un tiers d'entre eux n'avaient aucune expérience directe préalable dans leur domaine. Ils attribuent principalement leur succès à la qualité de leur produit, de leur gestion et de leurs employés. Ils perçoivent certaines faiblesses dans la gestion, la concurrence et les contraintes financières. Leur investissement de départ est 72 fois supérieur à la moyenne pour l'ensemble des petites entreprises. La moitié d'entre eux n'ont pas utilisé du tout leur propre argent pour démarrer.

**Les petites entreprises ne se soucient guère des systèmes de personnel élaborés.** Seulement cinq pour cent d'entre elles ont un directeur du personnel. Un quart d'entre elles ont des descriptions d'emploi et un sixième ont des évaluations d'emploi officielles. Les salaires sont établis d'après le jugement du propriétaire selon le mérite, l'aptitude à payer de l'entreprise et la situation du marché de l'emploi. Pour les entreprises ayant moins de cinq employés, l'aptitude à payer est le critère principal. Cependant, les petites entreprises ont beaucoup de moyens d'encouragement pour leurs employés et plus de la moitié d'entre elles offrent les principaux avantages sociaux à court terme à leurs employés.

**Les charges sociales ont augmenté de 90 pour 100 au cours des six dernières années, principalement à cause d'une augmentation de 149 pour 100 des primes d'accidents du travail.** Elles coûtent maintenant 8,2 pour 100 du salaire au lieu de 6 pour 100 il y a six ans, ce qui risque de mettre un frein à l'embauche.

**Le marché officiel du capital de risque est toujours sous-développé au Canada.** Dans notre province, le gouvernement a aidé la Chambre de commerce de l'Ontario à établir le RIIO (Réseau d'investissement informatisé de l'Ontario), afin de rapprocher les entrepreneurs et les investisseurs. Les investisseurs sont satisfaits de la situation actuelle, mais les entrepreneurs aimeraient voir la création d'un réseau national qui les ferait mieux connaître aux investisseurs privés.

**Les investissements réalisés sur le marché officiel canadien du capital de risque ont diminué de 16 pour 100 pour atteindre 206 millions de dollars en 1986.** Les investissements réalisés en Ontario ont cependant augmenté de 24 pour 100 et représentaient 31 pour 100 de l'ensemble.

**Le programme Nouvelles Entreprises, lancé en septembre 1986, est conçu pour garantir des prêts allant jusqu'à 15 000 \$ sur le démarrage, à condition que l'investisseur apporte des fonds**

équivalents au montant du prêt. Au cours de sa première année, le programme a garanti plus de 3 200 prêts totalisant 43 millions de dollars.

**Les Sociétés de développement de l'Ontario se sont lancées dans un important programme de modernisation et d'expansion des installations**, notamment en assumant la responsabilité de la Société Innovation Ontario et du programme Nouvelles Entreprises. Les prêts non remboursés totalisent maintenant 831 millions de dollars, pour un actif total autorisé de 1,2 milliard de dollars.

**Les entrepreneurs qui réussissent sont des planificateurs convaincus** et, même s'ils n'aiment pas l'appeler par son nom, leur planification est extrêmement souple dans la pratique. Leur planification comporte quatre volets fondamentaux — la planification de projet, l'établissement d'objectifs, l'établissement d'orientations et la planification d'ensemble. Une enquête auprès des entrepreneurs qui réussissent a révélé qu'environ la moitié fait une planification d'ensemble, un quart fait une planification de projet, un dixième établit des objectifs et un dixième des orientations, tandis que 4 pour 100 ne planifient pas du tout. Le signe distinctif d'un entrepreneur est son aptitude à reconnaître et à créer les opportunités. La moitié des entrepreneurs croient qu'ils créent leurs propres opportunités, 40 pour 100 croient que les opportunités se présentent devant eux par hasard et 10 pour 100 croient les deux.



# Annual Report on Small Business in Ontario







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# Highlights of the Annual Report on Small Business in Ontario

**Small firms are the major force in job creation.** During 1976-84, jobs in the Canadian economy increased by 8 per cent but firms employing fewer than 20 people increased employment by 25 per cent, accounting for 87 per cent of the new jobs during the period. Big firms (employing more than 500 people) grew 12 per cent, accounting for 46 per cent of the new jobs.

**The major contribution to new jobs comes from births of small firms.** New firms employing fewer than 5 people increased employment by 94 per cent in their size category, while exits took away only 41 per cent of that gain. Firms that were already operating at the beginning of the period also performed well, increasing employment by 16 per cent through expansions against a loss of only 11 per cent from contractions. All other size categories pale in comparison.

**The bulk of new jobs in Canada comes from a remarkably small number of dynamic firms.** Less than 5 per cent of the firms employing fewer than 20 people in 1976 grew into a higher size category by 1984 — but they accounted for 46 per cent of all new jobs created. This elite group came disproportionately from the manufacturing sector and from Ontario and Alberta. Mid-sized firms that grew into big businesses during the same period were few and far between (0.04 per cent of the total number of firms) but they accounted for 19 per cent of the new jobs.

**Service industries have become the major job creator, increasing employment by 27 per cent to account for 75 per cent of new jobs in 1976-84.** The stellar performance came from firms with fewer than 20 employees, which grew 41 per cent. The most active sector for new jobs is private sector services, where there was a 7 per cent growth in jobs from new firms — a far higher rate of formation than in any other part of the economy. The biggest sector for growth is services to business, which increased employment 87 per cent in 1976-84, taking its share of services employment to 4 per cent. Other good performers were professional services and amusement and recreation, which both grew at close to 40 per cent over the period.

**Small firms contribute more to the economy per dollar of revenues than mid- and large-sized firms.** They generate income of 29 per cent of their revenues versus 20 per cent for the rest.

**Small firms generally perform better in sectors where big businesses are strong.** In manufacturing, big-business dominated sectors grew at 2 per cent compared to -7 per cent for small-business dominated sectors, with jobs in firms employing fewer than 20 people growing 49 per cent in the former sector and 40 per cent in the latter. The major exception is large service firms where the big-business dominated sectors are largely government agencies in which jobs increased a sedate 16 per cent in eight years compared with 55 per cent in their private-sector counterparts.

**Women and young people are strongly represented in business ownership.** The percentage of women among Canada's business owners rose from 13 per cent in 1970 to over 24 per cent in 1984. In the past year, women accounted for 26 per cent of New Ventures loans. Over 40 per cent of Ontario's new companies are headed by people under 30 years of age.

**The entrepreneurs who head Ontario's superstar companies — young firms that grew the fastest in sales and employment — are profiled in a new study.** They tend to be almost entirely male, older, university graduates, oldest sons and children of entrepreneurs or executives. They come from executive, manager or owner careers and a third of them have no previous direct experience in their line of business. They attribute their success primarily to a quality product, good management and good people. Their perceived weaknesses are management, competition and financial constraints. Their investment at startup is 72 times the average for the general population of small businesses. Half of them didn't use any of their own money at startup.

**Small firms don't have much time for fancy personnel systems.** Only five per cent have a personnel manager. A quarter have job descriptions and one-sixth have formal job evaluations. Salaries are set by the owner's judgement on merit, ability to pay and the marketplace. For firms with fewer than five employees, ability to pay is the top criterion. Small firms do, however, have a lot of incentive plans for employees and more than half offer the major short-term employee benefits.

**Payroll taxes have increased 90 per cent in the past six years, due largely to a 149 per cent increase in workers' compensation premiums.** They now cost 8.2 per cent of payroll versus 6 per cent six years ago, threatening to impede decisions to hire

**The informal risk-capital market is still underdeveloped in Canada.** In this province, the government has helped the Ontario

Chamber of Commerce set up COIN, the Computerized Ontario Investment Network, to bring entrepreneurs and investors together. Investors are content with the current status, but entrepreneurs would like to see a national network with greater exposure to private investors.

**Investments made in Canada's formal venture capital market were down 16 per cent to \$206 million in 1986.**

Investments in Ontario, however, were up 24 per cent to take a 31 per cent share of the total.

**The New Ventures Program, started in September 1986, is designed to guarantee loans of up to \$15,000 available to startups,** provided the investor matches the loan dollar for dollar. In its first year, the program guaranteed more than 3,200 loans for a total of \$43.0 million.

**The Ontario Development Corporations have embarked on a major program to modernize and expand operations,** including responsibility for Innovation Ontario Corporation and the New Ventures program. Loans outstanding now total \$831 million, with an authorized asset-base of \$1.2 billion.

**Successful entrepreneurs are avid planners** — although they don't like to call it that — and their application of planning is extremely flexible. They use four basic types of planning — project planning, goal setting, direction-setting and full-scale planning. A survey of successful entrepreneurs found about half do full-scale planning, a quarter plan projects, a tenth each set goals or directions and 4% don't plan at all. The distinguishing skill of an entrepreneur is the recognition and creation of opportunities. Half the entrepreneurs believe they create their own opportunities, 40 per cent believe that opportunities come their way by chance and 10 per cent believe both.





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# 1 The Setting for Small Business

Small business in Canada — and in most western nations — is enjoying explosive growth, thanks to three major, interconnected trends.

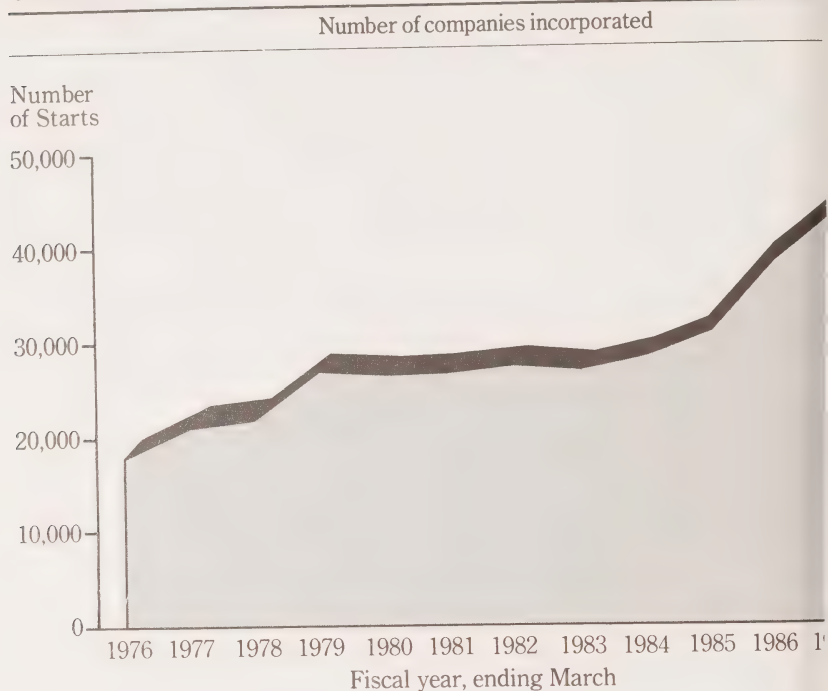
- The rate of change in technology and markets has given an edge to small, innovative and flexible firms that can now compete with large companies to a degree that would have been inconceivable even 10 years ago.
- Fierce international competition is forcing large organizations to slash their manpower in an effort to control costs. The displaced managers are being thrust, often unwillingly, into the role of entrepreneur. Once there, many have found they like it and are good at it.
- Finally, an important part of the crash program of retrenchment by large organizations has been the subcontracting to outside suppliers of the production of goods and services previously produced by in-house departments. This has created a growing demand for innovative suppliers, most of which are small businesses.

Ontario's diversified economy, located so close to the major North American markets, has benefitted from all three trends, perhaps more than any other province in Canada. In the context of strong growth in Gross Provincial Product, employment and capital investment, and declining unemployment (see Table 1.3 on page 60), Ontario is enjoying an unprecedented surge of entrepreneurial activity. Chart 1.1 shows how new business incorporations — the seeds of future growth — are running at record levels.

New incorporations do not, of course, reflect all new businesses. A much greater number are established as unincorporated businesses. In the year to March, 1987, a record 115,000 new businesses, almost two-thirds of them unincorporated, were registered.<sup>1</sup> This was 16% more

Not all registrations translate into instant new businesses. Some of them may not be activated for several years, others are new registrations of parts of existing businesses. This has been taken into account in the estimate of 115,000 registrations but it's likely there are fewer operating new entrants into business than even this figure implies. New entrants that employed people totalled about 60,000 in 1986-87.

**Chart 1.1<sup>2</sup>** *New Incorporations in Ontario, 1975-1986*



than in the previous year and brought the total number of active businesses in the province to more than 300,000.

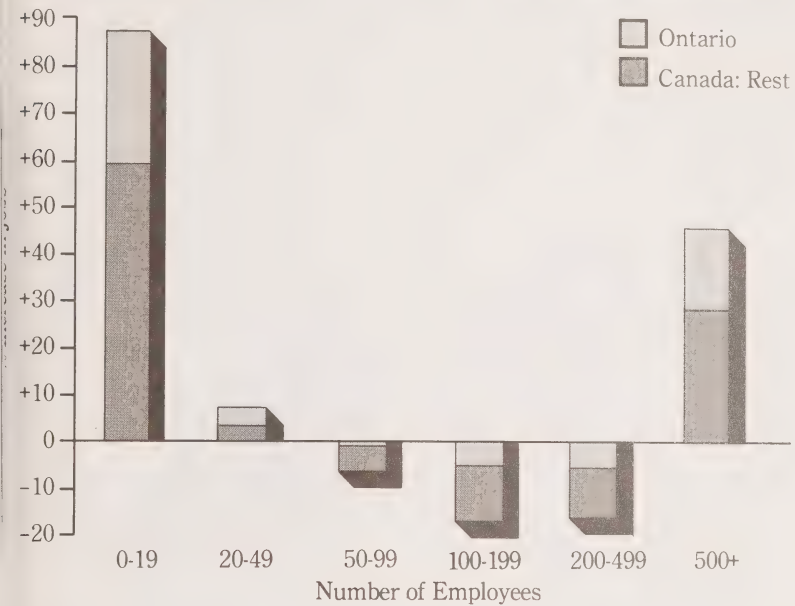
Partly as a result of this rapid rate of new business formations, Ontario firms employing fewer than 20 people created 27% of all new jobs in Canada between 1976-1984. The next best was Quebec, where the smallest firms provided 20% of total new jobs. Overall, Ontario accounted for 30% of all new jobs during this period — a figure that is bound to be surpassed by a wide margin when the statistics for 1985 and 1986 are added, as the economic recovery in Canada during the past two years has centred almost exclusively in Ontario.

Chart 1.2 shows that firms employing fewer than 20 people were the most significant source of new jobs during this period. They provided 87% of the total new jobs in Canada, a third of it in Ontario. Next highest was big business, which contributed 46% of the total new

<sup>2</sup>Source: Internal research, Ministry of Industry, Trade & Technology, 1987, based on data from the Ministry of Consumer & Commercial Relations.

Chart 1.2<sup>3</sup>*Where the New Jobs Came From: 1976-1984*

Percentage distribution of net employment change, by firm size, Canada and Ontario



bs, a quarter of it in Ontario. Mid-sized firms employing between 100-99 people suffered a net decline of 35% of the new jobs created, a third of it in Ontario.

The structure of the Ontario economy is tilted toward bigger businesses compared to the Canadian economy. In 1984 (the latest available complete statistics), big businesses with more than 500 employees employed 44% of all private-sector workers in Canada and 33% in Ontario. Firms employing fewer than 20 people gave jobs to 22% of the total private-sector workforce in Canada and 19% in Ontario.

To put it another way, Ontario is home to 40% of the Canadian workforce, ranging from 34% in firms employing fewer than five people to 44% in firms employing more than 500 people.

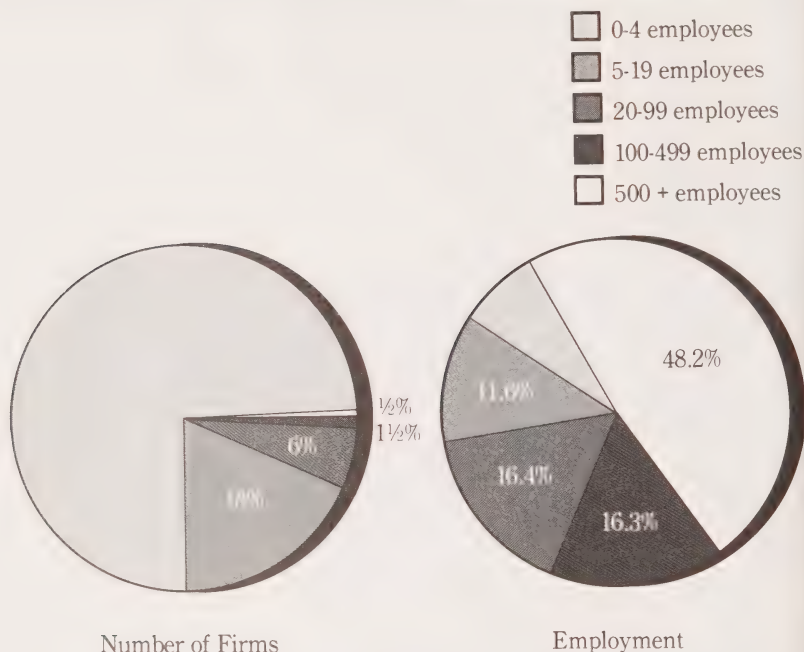
Chart 1.3 shows the breakdown, by size of firm, of the number of private-sector firms in the province and their share of total employment.

Source: "A Study of Job Creation in Canada, 1976-1984". Statistical Analysis, Department of Regional Industrial Expansion. 1986.

**Chart 1.3<sup>4</sup>**

*Where the Jobs Are, Ontario, 1984*

Percentage distribution, by size of firm, of the number of private-sector firms and their employees



Number of Firms

Employment

This is an impressive enough demonstration of the importance of small firms to the economy in terms of the employment they provide. However, it still understates the role of small businesses. The true measure of value in the economy is value added — the net contribution of businesses to the Gross National Product. Value added consists of three main factors, of which income generated is by far the largest component. This consists of wages, salaries, depreciation and pre-tax profits (or losses). The other two are capital consumption — investments in capital and spending on repairs — and changes to physical inventory. These two accounted for 10% and 1% respectively of Ontario's Gross Provincial Product in 1984.

<sup>4</sup>Source: "Demographic and Earnings Profile of Business Employment, 1984". Statistics Canada, Small Business Statistics, Business Microdata Integration and Analysis. April, 1987. Employment is calculated as Full-Year Equivalent, which is obtained by dividing payroll totals by the average wage in each sector. This overstates employment in industries with a high proportion of part-time workers.

**Table 1.1<sup>5</sup>***Small Firms Pack a Bigger Punch*

Income generated by Canadian firms as a percentage of annual revenues in 1984				
Sector	Income generated as a percentage of revenues in:			
	All firms	Small* firms	Medium* firms	Large* firms
	%	%	%	%
Primary	39	42	42	38
Manufacturing	22	36	27	20
Service**	33	38	27	27
Trade	13	17	12	11
<b>All industries</b>	<b>21</b>	<b>29</b>	<b>20</b>	<b>19</b>

Note: \*Small firms are defined as having annual sales of less than \$2 million; medium firms have annual sales of \$2 million to \$20 million; large firms have sales of \$20 million and over.

\* Service comprises construction, real estate operators and insurance agents, and business and personal services.

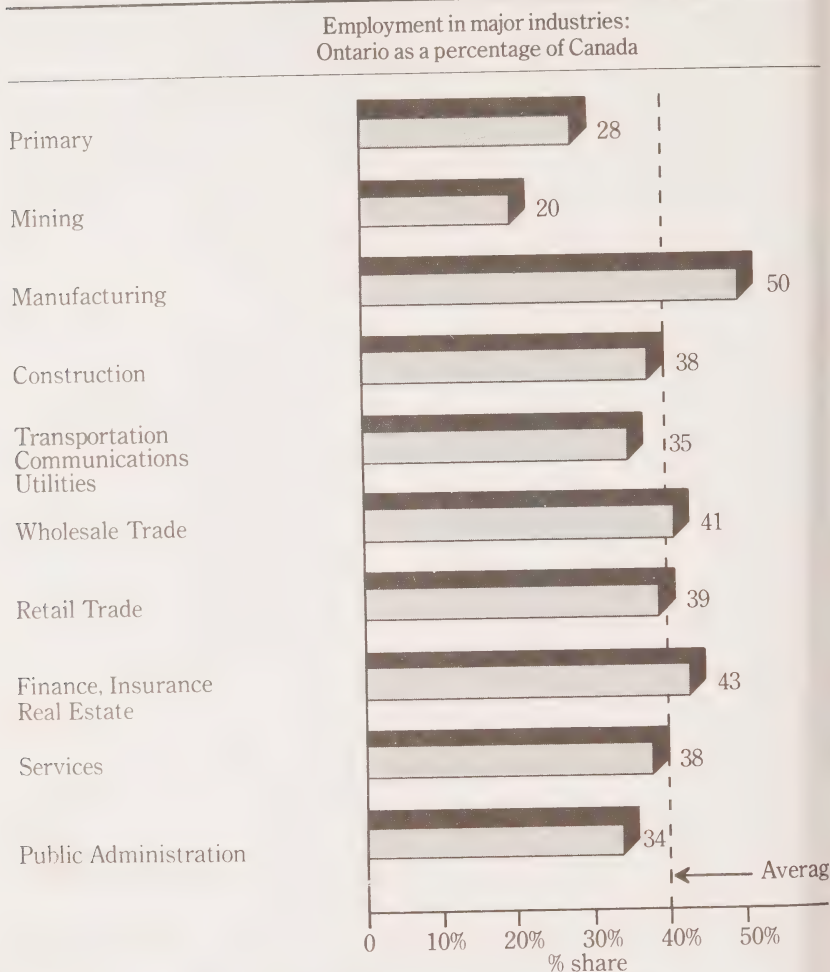
Table 1.1 shows that, in terms of income generated per dollar of revenues, small firms pack a decidedly heavier punch than do medium- or large-sized firms — about half as much again as larger firms.

A further important conclusion from this table is that services have a significantly higher component of income generated than manufacturing — particularly in large firms but in small firms, too, to a lesser degree. Although services are growing faster than any other branch of the economy, manufacturing has been the traditional target of economic development projects.

The Ontario economy is particularly strong in manufacturing. One half of Canada's manufacturing jobs were in Ontario in 1984. It has most certainly risen further since then, but more recent statistics are not available. As Chart 1.4 shows, Ontario is also well represented in wholesale trade and in finance, insurance and real estate, but has a significantly below-average representation in the primary industries and mining — which may partly explain why Ontario did not suffer as badly as the other provinces from the 1981-1982 recession.

Source: Small Business Advocacy, Small Business Branch, Ministry of Industry, Trade & Technology. Based on "Small Business in Canada: A Statistical Profile 1982-1984" and "Private and Public Investment in Canada: Intentions", both by Statistics Canada.



Chart 1.4<sup>6</sup>*Ontario's Share of Canadian Jobs, 1984*

Ontario's contribution to the national economy (39%) is greater than its share of population (36%) — but its share of the small businesses in Canada (33%) is smaller than its share of population. Table 1.2 shows that small businesses are most prominent in Quebec and the West, but Ontario's small businesses are comfortably the most profitable.

<sup>6</sup>Source: "Demographic and Earnings Profile of Business Employment, 1984". Statistics Canada, Small Business Statistics, Business Microdata Integration and Analysis. April, 1987.



## Small business\*\*

Region	Population*	% of Canada		GDP*	% of Canada		Total revenues	% of Canada		Pre-tax profit	% of Canada	
		millions	%	\$billion	%		\$billion	%		\$billion	%	
B.C.	2.9		11	51	11		20	15		0.8	12	
Alberta	2.4		9	62	14		16	12		0.7	10	
Sask./Man.	2.1		8	36	8		10	8		0.5	8	
<b>Ontario</b>	<b>9.2</b>		<b>36</b>	<b>175</b>	<b>39</b>		<b>44</b>	<b>33</b>		<b>2.4</b>	<b>36</b>	
Quebec	6.6		26	100	22		34	26		1.8	27	
Atlantic	2.3		9	27	6		9	7		0.4	6	
<b>Canada</b>	<b>25.6</b>		<b>100</b>	<b>453</b>	<b>100</b>		<b>133</b>	<b>100</b>		<b>6.7</b>	<b>100</b>	

\* These statistics are for 1986.

\*\* Small business is defined as having annual sales of less than \$2 million.

Source: "Small Business in Canada, 1983: Provincial Distributions", Statistics Canada.

*The Ontario Economy*Table 1.3<sup>s</sup>

	Amount			Percentage increase		
	1985	1986	1987	1985	1986	1987
				%	%	%
Gross provincial product (\$ billion)	179.9	194.6	209.0	4.7*	4.6*	3.5*
Business investment (\$ billion)	19.2	22.4	24.0	15.2	16.7	7.1
Housing starts (000s)	64.9	81.5	82.0			
Retail sales (\$ billion)	49.0	53.4	57.4	12.7	9.0	7.5
Corporate profits (before tax) (\$ bill.)	16.3	17.4	18.9	8.1	7.8	7.1
Labour force (000s)	4,787	4,897	5,005	2.6	2.3	2.2
Unemployment rate (% of labour force)	8.0	7.0	6.5			
Job creation (000s)	159	153	125			

\* These percentage increases are in real terms, after adjusting for inflation.

The strong performance in Ontario is based on a diversified economy that has rich resources, both natural and human. Table 1.3 outlines the progress of the Ontario economy over the past three years.

The tables on the following pages show the distribution of Ontario firms, by industry and firm size (Table 1.4) and by industry and employees (Table 1.5).

Table 1.4<sup>a</sup> *Distribution of Ontario Firms, 1984*

Distribution, by industry and firm size, of private-sector firms

Industry	Percentage of firms that are:			Total	Number of firms
	Small firms	Medium firms	Large firms		
	%	%	%	%	#
Primary	99.9	0.1	—	100.0	15,435
Mining	89.3	5.5	5.2	100.0	807
Manufacturing	90.7	6.7	2.6	100.0	19,834
• Food & beverage	88.6	6.8	4.6	100.0	1,773
• Tobacco products	44.5	11.1	44.4	100.0	9
• Rubber & plastics	87.9	9.4	2.7	100.0	733
• Leather	77.7	19.5	2.8	100.0	215
• Textiles	85.9	10.2	3.9	100.0	547
• Knitting mills	74.8	22.7	2.5	100.0	119
• Clothing	88.2	9.5	2.3	100.0	768
• Wood	93.9	5.2	0.9	100.0	1,115
• Furniture & fixtures	95.6	3.7	0.7	100.0	1,520
• Paper & allied	77.7	12.1	10.2	100.0	372
• Printing, publishing	95.3	3.5	1.2	100.0	2,843
• Primary metal	77.6	15.3	7.1	100.0	255
• Metal fabricating	94.6	4.1	1.3	100.0	3,489
• Machinery	89.2	8.6	2.2	100.0	1,262
	91.0	12.9	6.1	100.0	723

• Non-metal mineral prod.	91.1	6.0	2.9	100.0	580
• Petroleum & coal prod.	67.4	10.9	21.7	100.0	46
• Chemicals	79.0	14.0	7.0	100.0	686
• Miscellaneous manuf'ring	94.7	4.3	1.0	100.0	1,941
<b>Construction</b>	<b>99.2</b>	<b>0.7</b>	<b>0.1</b>	<b>100.0</b>	<b>30,589</b>
<b>Transport./Commun./Util.</b>	<b>96.3</b>	<b>2.7</b>	<b>1.0</b>	<b>100.0</b>	<b>9,274</b>
<b>Wholesale trade</b>	<b>97.1</b>	<b>2.5</b>	<b>0.4</b>	<b>100.0</b>	<b>18,453</b>
<b>Retail trade</b>	<b>99.0</b>	<b>0.8</b>	<b>0.2</b>	<b>100.0</b>	<b>44,094</b>
<b>Finance/Ins'ce/Real est.</b>	<b>98.0</b>	<b>1.4</b>	<b>0.6</b>	<b>100.0</b>	<b>17,879</b>
<b>Services</b>	<b>98.3</b>	<b>1.2</b>	<b>0.5</b>	<b>100.0</b>	<b>96,249</b>
• Education	87.3	5.7	7.0	100.0	2,065
• Health & welfare	97.3	1.8	0.9	100.0	16,094
• Religious organizations	99.8	0.2	—	100.0	5,685
• Amusement, recreation	98.5	1.2	0.3	100.0	4,841
• Business management	98.3	1.4	0.3	100.0	23,137
• Personal services	99.8	0.2	—	100.0	17,639
• Accommodation, food	98.4	1.3	0.3	100.0	16,869
• Miscellaneous services	98.6	1.1	0.3	100.0	9,919
<b>Unclassified</b>	<b>100.0</b>	<b>—</b>	<b>—</b>	<b>100.0</b>	<b>11,726</b>
<b>Total — all industries</b>	<b>97.9</b>	<b>1.6</b>	<b>0.5</b>	<b>100.0</b>	<b>264,350</b>

Note: Small business is defined as companies employing fewer than 100 people; medium companies 100-499; large companies more than 500.

"Source: "Demographic and Earnings Profile of Business Employment, 1984". Statistics Canada, Small Business Statistics, Business Microdata Integration and Analysis. April, 1987.

Table 1.5<sup>10</sup> *Distribution of Ontario Workers, 1984*

Distribution, by industry and firm size, of private-sector employment						
Industry	Percentage of employment in:				Total employ- ment  000s	Share of total  %
	Small firms	Medium firms	Large firms	Total		
	%	%	%	%		
Primary	88.7	11.3	—	100.0	26	0.7
Mining	12.6	11.3	76.1	100.0	38	1.1
Manufacturing	21.0	20.8	58.2	100.0	984	27.1
• Food & beverage	15.7	16.4	67.9	100.0	102	
• Tobacco products	n/a	n/a	93.5	100.0	3	
• Rubber & plastics	21.7	26.7	51.6	100.0	45	
• Leather	21.1	43.7	35.2	100.0	15	
• Textiles	18.8	25.3	55.9	100.0	29	
• Knitting mills	23.2	61.5	15.3	100.0	7	
• Clothing	38.1	34.6	27.3	100.0	31	
• Wood	46.9	41.8	11.3	100.0	22	
• Furniture & fixtures	48.2	32.5	19.3	100.0	28	
• Paper & allied	10.1	10.5	79.4	100.0	54	
• Printing, publishing	31.7	22.7	45.6	100.0	68	
• Primary metal	5.8	12.4	81.8	100.0	67	
• Metal fabricating	44.3	21.7	34.0	100.0	93	
• Machinery	29.3	31.4	39.3	100.0	52	
	6.0	14.2	79.8	100.0	133	



• Non-metal mineral prod.	21.3	19.1	59.6	100.0	25	
• Petroleum & coal prod.	1.9	2.2	95.9	100.0	16	
• Chemicals	13.1	25.5	61.4	100.0	57	
• Miscellaneous manuf'ring	36.9	26.5	36.6	100.0	44	
<b>Construction</b>	<b>73.2</b>	<b>18.8</b>	<b>8.0</b>	<b>100.0</b>	<b>156</b>	<b>4.3</b>
Transport./Commun./Util.	20.1	14.1	65.8	100.0	255	7.0
Wholesale trade	57.7	24.0	18.3	100.0	223	6.2
Retail trade	46.1	10.2	43.7	100.0	504	13.9
Finance/Ins'ce/Real est.	26.5	12.5	61.0	100.0	262	7.2
<b>Services</b>	<b>38.3</b>	<b>15.2</b>	<b>46.5</b>	<b>100.0</b>	<b>1,173</b>	<b>32.3</b>
• Education	4.6	7.5	87.9	100.0	274	
• Health & welfare	27.9	19.0	53.1	100.0	266	
• Religious organizations	75.0	20.8	4.2	100.0	14	
• Amusement, recreation	58.8	19.3	21.9	100.0	43	
• Business management	51.8	21.4	26.8	100.0	200	
• Personal services	78.4	14.4	7.2	100.0	45	
• Accommodation, food	61.9	13.9	24.2	100.0	225	
• Miscellaneous services	44.6	16.3	39.1	100.0	105	
<b>Unclassified</b>	<b>78.8</b>	<b>6.9</b>	<b>14.3</b>	<b>100.0</b>	<b>10</b>	<b>0.3</b>
<b>Total — all industries</b>	<b>35.4</b>	<b>16.3</b>	<b>48.3</b>	<b>100.0</b>	<b>3,633</b>	<b>100.0</b>

Note: Small business is defined as companies employing fewer than 100 people; medium companies 100-499; large companies more than 500.

<sup>10</sup>*Ibid.*



# 2 Job Creation

Small businesses are enhancing, year by year, their central role in the creation of new jobs for a Canadian economy overburdened by high jobless rates. Table 2.1 below shows that firms employing fewer than 20 people accounted for 87% of the new jobs in the private sector during 1976-84. In the previous study covering the years 1974-1982<sup>1</sup> (see *The State of Small Business*, 1986), firms of this size were responsible for 55% of the new jobs.

Equally significantly, the latest study shows that the role of the largest firms has also expanded considerably. Firms employing more than 500 people accounted for 46% of the new jobs in 1976-84 compared with 39% in the earlier study.

**Table 2.1<sup>2</sup>** *Shares of Employment Growth, Canada, 1976-1984*

Percentage distribution, by industry and firm size, of the net change in employment							
Industry	Firm size by number of employees						Total
	0-19	20-49	50-99	100-199	200-499	500+	
Agriculture	2.3	0.1	—	−0.1	−0.1	0.2	2.3
Forestry	0.5	−0.2	−0.1	−0.3	0.1	0.4	0.4
Fishing	0.4	—	—	—	−0.1	−0.1	0.2
Mines	1.8	0.2	0.2	0.1	0.2	2.1	4.6
Manufacturing	15.5	1.5	−4.1	−10.1	−13.4	−1.6	−12.3
Construction	3.0	−4.9	−4.4	−4.8	−2.3	−1.6	−15.0
Transport	5.0	0.1	−0.3	−1.1	−0.1	9.6	13.1
Trade	21.6	−0.5	−3.1	−4.2	−1.9	9.1	21.0
Finance	5.8	1.6	0.5	−0.4	−0.5	2.8	9.8
Services	31.4	9.2	5.4	3.3	1.0	25.3	75.7
Total	87.3	7.2	−5.9	−17.6	−17.1	46.2	100.0

<sup>1</sup>"A Study of Job Creation in Canada, 1974-1982". Statistical and Data Base Services, Department of Regional Industrial Expansion. 1985.

<sup>2</sup>Source: "A Study of Job Creation in Canada, 1976-1984". Statistical Analysis, Department of Regional Industrial Expansion. 1986.

## Mid-Sized Firms are Declining

The polarization of job opportunities at the two ends of the spectrum of firm sizes reflects the collapse of employment in Canada's mid-sized firms. Firms employing 100-499 people lost the equivalent of 35% of the net new jobs created during 1976-84, compared with a relatively moderate cutback of 3% in the earlier study.

These numbers represent shares of the net new jobs created in each period and it's important to note that the earlier period missed a good part of the corporate retrenchment following the 1981-82 recession. The shares of new jobs are therefore based on a much smaller pie in the later period, when total jobs grew 8%, compared to the earlier period, when jobs grew 25%. Nonetheless, the smallest firms still performed better than the larger firms. They grew 25% compared to 49% in the earlier period, while the biggest firms slashed their growth to 12% from 31%.

Firms employing fewer than 20 people were a greater force for new jobs than the large firms in every industrial category except two. Big business edged out small business as the primary job creator in mining (where three-quarters of all jobs are in big companies) and in transportation, communications and utilities (where two-thirds of the jobs are in big companies). In both these categories, small firms employ no more than 20% of the workforce.

The collapse of employment in the mid-sized firms appears to be a devastating indictment of the strength of these firms in Canada. Table 2.2 shows that, of the 7,000 mid-sized firms in this study in 1976, 175 expanded into the largest size category. This handful of firms created between them one-sixth of all new jobs during the period. Another 124 firms started out in the largest size category but shrank into the mid-sized category, cancelling out two-thirds of the employment gains made by the dynamic mid-size firms.

At the other end of the mid-size category, 1,716 small firms grew into mid-size firms, more than compensating for the 1,279 mid-sized firms that declined to become small firms. Statistics are not available for the births of new, mid-sized firms during 1976-84, but other studies indicate they were well below the 2,338 firms that became inactive because of takeovers or failures. The net effect was a dramatic shrinkage in the mid-sized firms.

The damage to mid-sized firms was heaviest in Quebec, where more than half the job losses for mid-sized firms were concentrated. The losses in Quebec were caused primarily by radical cutbacks in the soft manufacturing industries — leather, textiles, knitting, clothing and wo

Table 2.2<sup>3</sup>*Growing, Shrinking and Dying*

1984 distribution, according to size and status, of Canadian firms that existed in 1976					
Size of firms in 1976	Size of firms in 1984				
	Small	Mid	Large	Inactive	Total
Small	239,991	1,716	9	172,851	414,567
Mid	1,279	3,236	175	2,338	7,028
Large	11	124	610	242	987
Total	241,281	5,076	794	175,431	422,582

- which accounted for almost 90% of total job losses in manufacturing and where Quebec has a disproportionate share of Canadian production. Ontario accounted for the bulk of the remaining losses in mid-sized firms, but the rate of job losses was only 12.5% of 1976 employment compared to 25% in Quebec and 4% in the rest of Canada.

This may explain why the job losses have been so severe in mid-size firms but it doesn't illuminate the issue of why more small firms aren't growing into mid-size and, ultimately, large firms. It's clear the economic environment can support a number of dynamic small firms that make enormous contributions to job creation — but there are just not enough of them.

### New Jobs are in Services, not Manufacturing

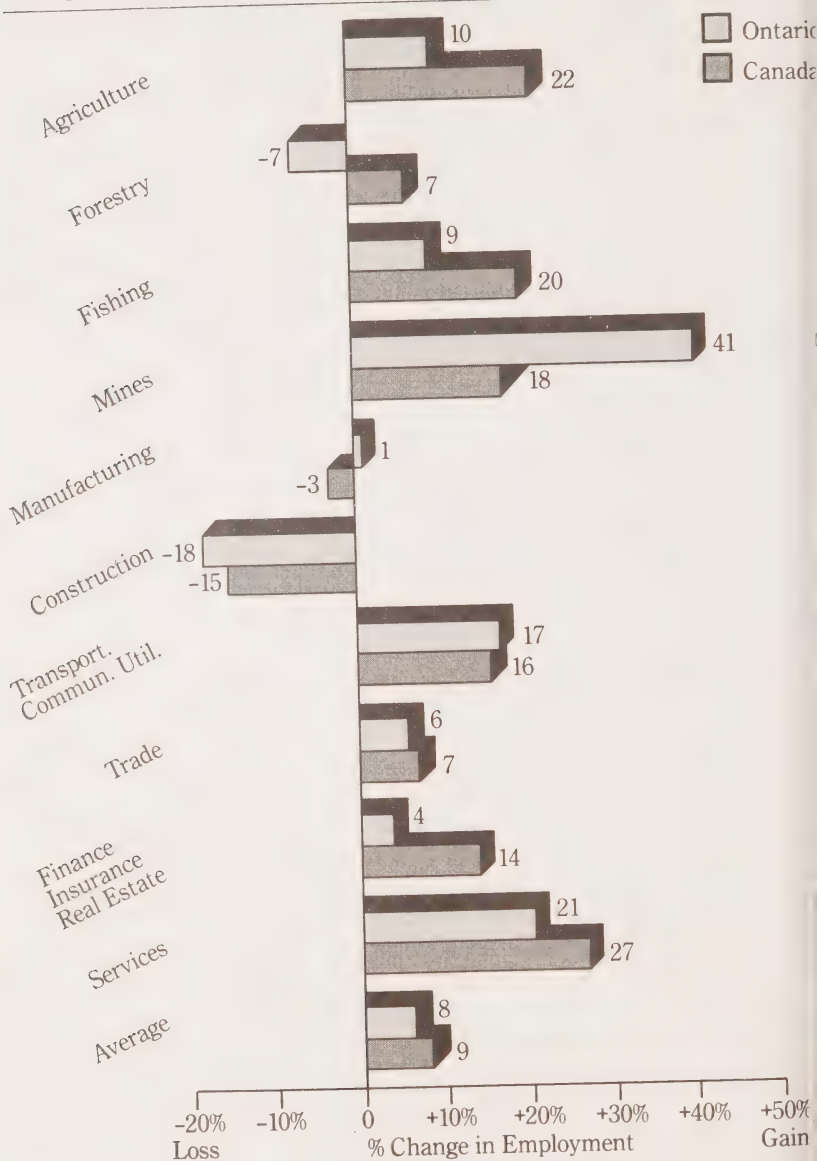
A second major contrast with the earlier study of job creation is the shift in activity out of manufacturing and into services. In the later period, services accounted for more than 75% of all new jobs, while manufacturing contributed a drag of 12% on new jobs. In the 1974-1982 study, services accounted for 37% of the new jobs, manufacturing for 10%. For a more detailed look at these two industries, see Tables 2.3 and 2.4 in this chapter. Trade was also a significant contributor of new jobs, with a 21% share of net employment change, all in firms with fewer than 20 employees.

Ontario's growth patterns within these industries were strikingly different from Canada's. Chart 2.1 shows that Ontario's growth was weaker (or its cutbacks bigger) than the Canadian average in all but three industries — mining, manufacturing, and transportation, communications and utilities.

id.

**Chart 2.1<sup>4</sup>** *Job Growth and Loss, Canada and Ontario, 1976-1984*

Change in employment, by industry, expressed as a percentage of 1976 employment

<sup>4</sup>*Ibid.*



Perhaps the most notable was finance, insurance and real estate, in which employment grew 4% between 1976-1984 in Ontario versus 14% in Canada. In the earlier study, between 1974-1982, employment in this industry grew 20% in Ontario, 50% in Canada.

There is an important caveat to these statistics. The main reason Ontario was running slightly behind the average for the whole country was that the impact of the commodity crunch in the early 1980s had not yet been absorbed by the West. Accordingly, the phenomenal gains in the second half of the 1970s in Alberta and B.C. make the performance of the western provinces appear impressive in the period 1976-84. Alberta, for example, is shown as having increased its workforce 38% to take a 36% share of total new jobs during 1976-84. (In the 1974-82 study, Alberta's workforce grew 95%.) Alberta's extraordinary performance during these years raised the national average of job growth to 8% during 1976-84 while the other nine provinces between them grew only 6% (Ontario grew 6% to take a 30% share of all new jobs). The wrenching adjustment of the 1982-87 recession in Alberta and B.C. has virtually wiped out all their earlier gains. When the statistics for 1985-86 are added, Ontario's performance will exceed the national average.

Table 2.3 shows some remarkably divergent trends in the manufacturing sector. The smallest category of businesses, employing fewer than 20 people, had a net growth of 42% over 1976-1984, those employing 20 to 49 people had a marginal 4% growth and every other size category declined — even the largest companies.

Small businesses grew strongly even in the most devastated industries. In leather, textiles, clothing and knitting, firms employing fewer than 20 people grew by an average 54%, even as firms employing more than 500 declined by 26%, on average.

The average decline of 1% in big businesses camouflages a great variety among industries in different states of health. In three industries — transportation equipment (mainly cars), primary metals (mainly steel) and printing and publishing — the big firms grew by 15% between 1976-1984. In the same period, the big firms in the soft industries declined 26% and the balance declined gently by 5%.

The net effect of this lopsided growth pattern is that, by 1984, 13.3% of all people working in manufacturing industries were in firms with fewer than 20 employees versus 9.7% in 1976 — at the expense of mid-size firms, which employed only 31% of people in manufacturing in 1984 compared to 37% in 1976.

A further significant element in the decline of manufacturing employment is that there were relatively few new entrants into the

Table 2.3<sup>5</sup>

*Change in Manufacturing  
Employment, Canada, 1976-1984*

Net change in manufacturing employment, by firm size and industry, expressed as a percentage of 1976 employment base							
Industry	Firm size by number of employees						Total
	0-19	20-49	50-99	100-199	200-499	500+	
Food	32.1	9.1	-1.9	-13.6	-16.1	2.5	0.1
Tobacco	33.3	-47.9	-100.0	-100.0	-75.9	64.4	25.1
Rubber	77.1	33.9	18.7	-26.0	-6.7	-34.1	-9.1
Leather	59.0	-7.4	-4.1	-35.0	-42.4	-47.2	-26.1
Textiles	40.8	11.8	-20.6	-25.4	-32.4	-20.1	-16.1
Knitting	64.7	-4.1	-12.9	-17.5	-36.6	-16.3	-17.1
Clothing	60.5	5.0	-16.5	-34.4	-32.9	-31.6	-18.1
Wood	30.7	-8.3	-15.8	-15.3	-27.6	12.8	-2.1
Furniture	52.5	-0.9	-20.9	-26.4	-30.1	-29.2	-10.1
Paper	100.1	20.4	-0.5	-23.3	-7.2	-1.9	-1.1
Printing	31.9	5.0	0.0	-21.2	-25.2	34.2	11.1
Primary metal	46.9	10.6	-14.8	-7.8	-16.4	12.2	8.1
Metal fabric.	47.2	5.4	-15.4	-30.6	-24.0	-15.0	-1.1
Machinery	70.7	-2.7	-0.7	-24.6	-19.2	-19.9	-8.1
Transport.	23.1	-4.2	-20.0	-19.2	-19.2	12.8	5.1
Electric	95.1	26.7	-6.0	-18.9	-22.9	-0.4	0.1
Non-metals	17.3	-13.2	-23.0	-13.8	-38.1	-9.9	-1.1
Petroleum	71.2	15.8	-6.4	-55.0	3.5	-6.8	-4.1
Chemicals	33.2	15.5	-10.8	-8.0	17.4	1.0	1.1
Miscellaneous	36.3	-2.3	-19.6	-27.3	-25.6	11.1	-1.1
<b>Total</b>	<b>42.1</b>	<b>4.1</b>	<b>-11.2</b>	<b>-23.3</b>	<b>-22.2</b>	<b>-1.0</b>	<b>-3.1</b>

sector: births of new manufacturing firms added 27% to the employment base, well below the 35% average for all industries. What growth there was came from expansions of existing firms, which exceeded contractions by 15% to 13%.

The picture is quite different in the service industries. As Table 2 shows, there was solid growth between 1976-1984 in all sizes of establishment, with the exception of firms employing 200-499 people. The strongest growth was predictably in firms with fewer than 20 employees, but, unlike manufacturing, the largest firms also did well.

<sup>5</sup>*Ibid.*

**Table 2.4<sup>6</sup>** *Change in Employment in Services, Canada, 1976-1984*

Net change in employment in service industries, by firm size and industry, expressed as a percentage of 1976 employment base							
Industry	Firm size by number of employees						Total
	0-19	20-49	50-99	100-199	200-499	500+	
Education	104.3	25.0	-3.9	24.3	18.0	11.6	15.0
Museums	168.4	11.8	-3.9	38.8	-3.7	0.0	34.6
Health	130.8	33.4	21.0	20.7	12.5	20.0	22.4
Social	80.3	57.2	19.9	15.8	19.2	32.5	37.2
Religion	55.8	14.6	11.9	-36.8	-31.1	33.6	4.2
Muse./recr.	59.9	30.0	29.7	21.4	-16.6	21.9	39.1
Business	209.3	102.9	31.2	43.4	9.5	138.9	86.8
Prof. services	62.5	24.8	18.4	13.2	14.5	57.7	40.3
Personal serv.	12.3	-7.9	-20.3	-22.8	-49.0	40.4	0.5
Accommodation	27.1	29.4	43.6	22.5	-16.6	43.7	27.9
Disc. services	32.9	5.2	-2.5	0.9	-18.5	47.6	21.6
<b>Total</b>	<b>40.8</b>	<b>25.9</b>	<b>22.8</b>	<b>16.3</b>	<b>3.4</b>	<b>25.9</b>	<b>26.7</b>

The most spectacular sector is services to business management, which grew 87%, thanks in large measure to a tripling of the employment of firms employing fewer than 20 people. This sector was starting from a small base of 2.8% of total employment in the service industries, but its growth accounted for 9% of total growth in the service industries, pushing its share of employment to 4.1% by 1984.

The biggest numbers came from accommodation and food services, which employ more than a quarter of all people working in services and which had a respectable growth of 28%. Other industries which are performing well are professional services and amusement and recreation, which both grew at close to 40% over the period.

The worst performer was personal services, in which employment barely budged between 1976-1984 — and firms with more than 500 employees were by far the strongest category.

The other major employers in the service sector, education and health services, together account for one-third of all employment in the sector, and they contributed 15% of the new jobs. As the smallest firms account for only 3% of employment in these two industries, almost all the job gains were in the largest size sector.

## Net Job Creation from Entrants and Exiters

Table 2.5 analyzes job creation through births, deaths, expansions and contractions. It's clear that the private-sector related service industries (excluding education and health) are a great deal more volatile than services as a whole or manufacturing.

**Table 2.5<sup>7</sup>** *Components of Employment Change, Canada, 1976-1984*

Net change in employment, through births, deaths, expansions and contractions, expressed as a percentage of 1976 employment base

Component of change	Selected* services	All services	Manufacturing
Births	57.4	40.4	27.3
Deaths	-34.9	-25.3	-32.2
Net change	22.5	15.1	-4.9
Expansions	19.7	20.9	14.6
Contractions	-11.4	-9.3	-12.9
Net change	8.3	11.6	1.7
<b>Total change</b>	<b>30.7</b>	<b>26.7</b>	<b>-3.3</b>

\* Selected services exclude firms related to education and health.

Activity in private-sector services is frenetic. With 57% growth in employment from the establishment of new businesses, entrepreneurs are flocking into their own businesses at a rate far greater than in any other part of the economy. This much higher birth rate would normally raise the exit rate to comparable levels, but it turns out the exit rate is only slightly above the rate in other parts of the economy.

Business management services are easily the biggest contributor to this activity in new ventures. Employment growth in 1976-1984 was 102% from births, with a remarkable exit rate of only 40%, for a net gain of 62%. The next highest birth rates were in accommodation and food and professional services, both of which added about 60% to employment through births — although accommodation and food had higher exit rate, as might be expected from such a risky business.

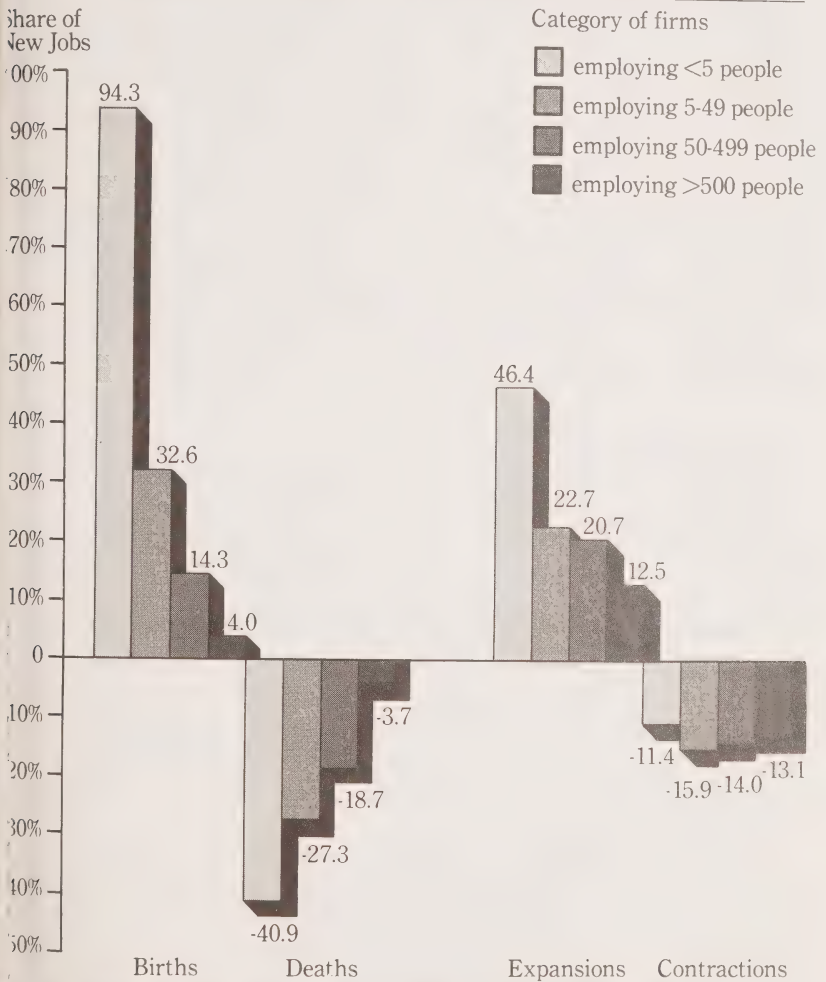
For personal services, starting a business is apparently a tough affair. Although entrants to the business contributed 35.5% in new jobs, exits weren't far behind at 34.6%. There wasn't much consolation

<sup>7</sup>*Ibid.*



**Chart 2.2<sup>8</sup>** *Components of Employment Change, Canada, 1978-1984*

Net change in employment, by firm size, expressed as a percentage of 1978 employment within each category



After once a firm was established, as employment growth from expansions was well below average for services and most other industries and less than exits in personal services.

Source: "Employment Creation by Province, Industry Classification, Firm Size and Life Status, 1978-84". Statistics Canada. Business Microdata Integration and Analysis and Small Business Statistics. 1987.

Chart 2.2 shows — over a different period, 1978-1984 — how births, deaths, expansions and contractions figured in job creation for all industries.

The most striking feature of Chart 2.2 is the 94% increase in employment in six years through births of new businesses employing fewer than five people. Deaths were also higher for these firms than for larger firms, as is normal with a high birth rate, but the net effect on employment through births and deaths of firms employing fewer than five people was still a significant 53% advance in employment.

It is equally significant that the growth in employment from expansions was also dominated by the smallest firms, which grew 46%, more than twice as much as firms employing 5-499 people and four times as much as big firms. Once the new, small firms have become established, they continue to provide the most impressive growth.

By contrast, contraction rates seem to vary relatively little by firm size. When times are tough, businesses react consistently.

### **Annual Trends: Impact of the Recession**

The trends of these components of employment growth were dramatically affected by the 1981-82 recession, which took its toll in inhibiting the formation of new ventures and precipitating more fatalities. Chart 2.3 tracks the annual progression of these components before, during and after the recession.

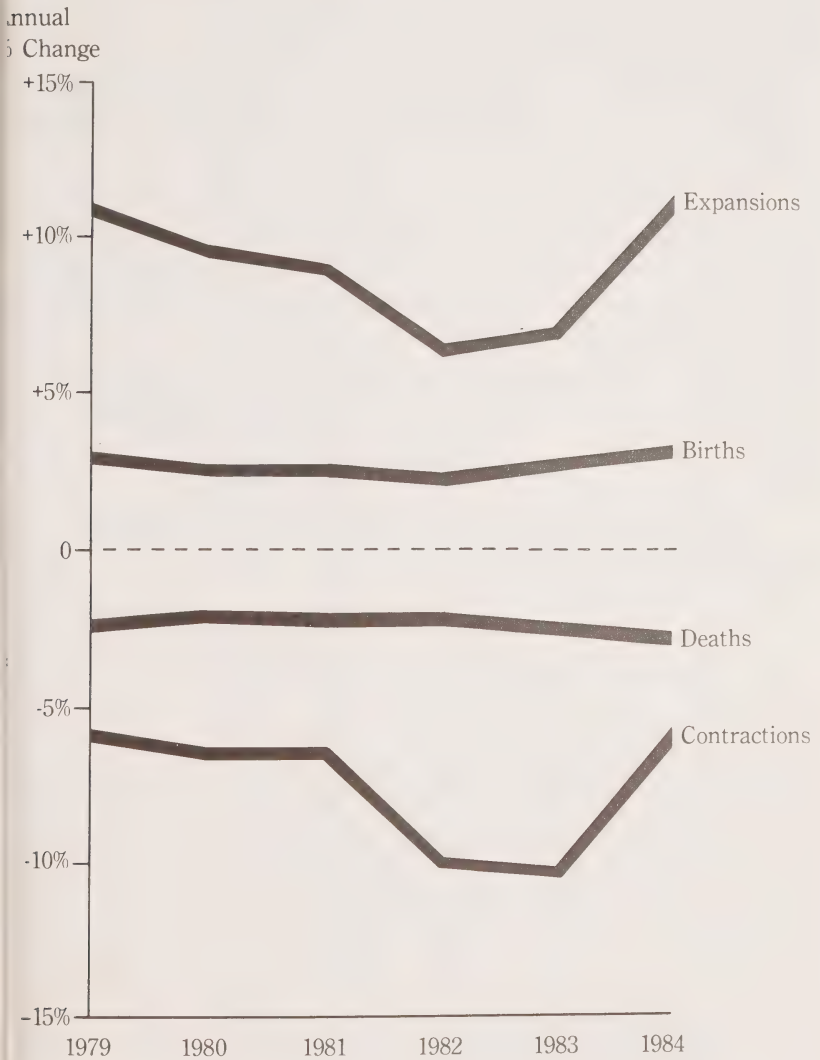
In sharp contrast to Chart 2.2, this chart shows births as making a much smaller contribution to employment growth than expansions. This is because the births in the first chart are measured on their employment growth throughout the 1978-1984 period, while the second chart measures their growth only in the year of birth. The annual figures therefore shift much of the job growth in the six-year figures out of births and into expansions.

The major variations in this chart come from expansions and contractions of existing firms, which show how the recession's effects lasted into 1983. In the first year of the recession, expansions dropped one-quarter to 6.5% while contractions increased almost two-thirds to 10%. This brought the net change of employment from expansions and contractions to a loss of 3.5% in 1982 from a gain of 2.5% in 1981. This situation continued with only minor changes in 1983, then the recovery took hold, with expansions bouncing back to 11% and contractions falling to 6% for a net gain of 5%.



Chart 2.3<sup>9</sup>

*Components of Employment Growth, Canada,  
1978-1984, Annually*



*bid.*

Further examination of these figures, in Table 2.6 below, shows that big firms are the major source of this volatility. Small firms held up well during the recession. They had a small dip in births in 1982, failures were almost unchanged, expansions were down by a fifth and contractions up by a fifth. But the largest firms (which of course account for a very small part of births and deaths) spread their reaction over two equally brutal years, cutting their employment expansions in half in 1982-1983 and more than doubling their contractions. The pattern for all firms with up to 499 employees is similar to that shown for firms with fewer than five employees.

Table 2.6 also provides further confirmation of the way the annual statistics understate job creation through births over the full period, 1978-1984. The expansion rate of the smallest firms, where most of the births occur, is much higher than the corresponding birth rate and the expansion rate for the largest firms.

**Table 2.6<sup>10</sup>** *Where the Jobs Came From, by Firm Size, 1978-1984*

Annual percentage growth in employment by component of growth and firm size						
Component	Employment growth in:					
	1979	1980	1981	1982	1983	1984
	%	%	%	%	%	%
Firms employing fewer than 5 people						
Births	9.9	10.4	10.4	8.3	10.0	8.8
Deaths	-10.3	-9.8	-9.6	-10.1	-9.7	-10.0
Expansions	29.9	25.7	25.6	20.7	24.3	27.4
Contractions	-11.6	-12.2	-12.3	-14.8	-12.9	-10.6
Firms employing more than 500 people						
Births	0.6	0.6	0.5	0.6	0.6	1.4
Deaths	-0.4	-0.3	-0.5	-0.3	-0.4	-0.7
Expansions	6.6	5.6	4.6	2.8	2.1	5.2
Contractions	-3.6	-3.5	-3.3	-6.7	-7.9	-3.7

As a final indication of the impact of economic cycles on employment growth rates, Table 2.7 demonstrates regional variances and the impact of the recession on particular industries.

<sup>10</sup>*Ibid.*

**Table 2.7<sup>11</sup>** *Annual Employment Growth by Industry, Canada and Ontario, 1978-1984*

Selected industries	1979	1980	1981	1982	1983	1984	1978-1984
	%	%	%	%	%	%	%
<b>Manufacturing</b>							
Canada	4.0	1.0	0.4	-8.4	-6.9	6.1	-4.7
Ontario	3.1	1.0	1.0	-6.4	-6.2	9.1	0.6
<b>Construction</b>							
Canada	1.9	-1.0	4.7	-10.7	-3.8	1.7	-7.6
Ontario	-3.4	-3.8	3.2	-6.4	2.5	7.8	-0.8
<b>Wholesale trade</b>							
Canada	6.0	2.2	2.3	-5.4	-4.4	6.1	6.4
Ontario	7.0	2.0	2.6	-1.5	-2.0	6.4	15.1
<b>Finance, Insurance and Real estate</b>							
Canada	5.2	3.9	-0.7	0.1	-0.4	0.4	8.6
Ontario	5.9	4.0	-0.8	1.1	1.1	2.2	14.1
<b>Total, all industries except public administration</b>							
Canada	5.4	3.4	2.7	-3.6	-3.1	5.3	10.0
Ontario	4.7	2.2	2.3	-1.7	-2.3	6.7	12.2
<b>Public Administration</b>							
Canada	5.1	1.7	3.3	2.1	-1.2	-0.9	10.3
Ontario	11.3	-3.3	6.3	2.8	-1.2	-0.6	15.4

Ontario's record of job creation during 1978-1984 was somewhat better than that of Canada as a whole mainly because Ontario held onto more jobs through the recession. This was particularly evident in manufacturing, where the employment level in 1984 was marginally above that of 1978, while the national performance was a dismal 4.7% reduction in employment. This trend, of course, has been exaggerated still further in the three subsequent years.

Governments kept a tight rein on employment through most of this period, but that ended in 1985 with stronger employment growth, which reduced the percentage of total jobs created by small businesses.

Perhaps the most remarkable industry was construction, where Alberta's boom and bust significantly distorted the national figures. In 1979, national employment grew 1.9%, thanks largely to Alberta's 9.9% growth, without which national growth would have been 0.2%. In the recovery from the recession, Ontario's construction industry grew 10.5% in 1983/1984, while Alberta's collapsed by 38%, bringing the national average down to a decline of 2.2%. In the full period 1978-1984, the Canadian industry declined by 3% without Alberta, 8% with Alberta.

In wholesale trade and finance, insurance and real estate, Ontario's performance has been consistently better than the rest of the nation.

### Regional Variances Within Ontario

The powerful economic recovery in Ontario since the 1981-82 recession has been rather uneven. The northern and eastern parts of the province have not had an easy time of it, while Metro Toronto and the central and southern parts of the province have enjoyed explosive growth.

In general, northern Ontario has a lower concentration of businesses relative to its population base than all the other regions. Chart 2.4 shows that the north also has the lowest number of business startups relative to its population. This is why the government has directed so many programs, especially financial (see Chapter 6), at helping northerners establish new businesses.

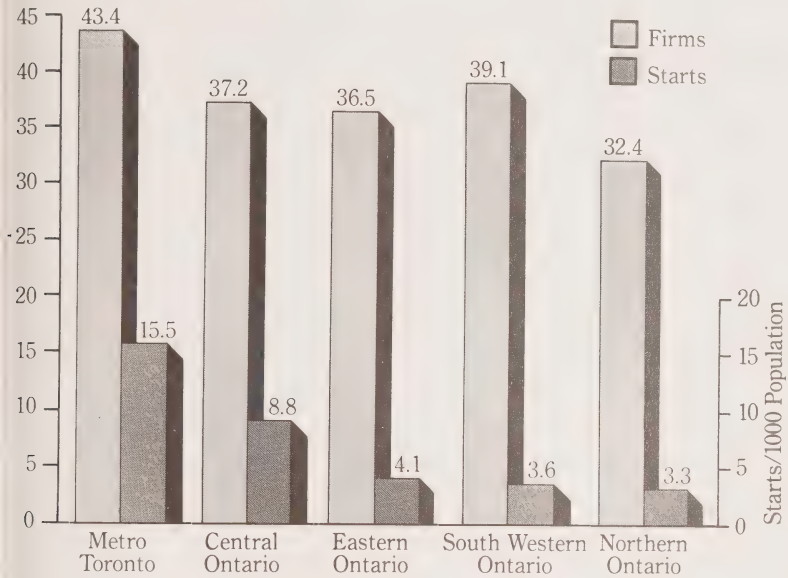
The rate at which new firms are being formed in southwestern Ontario is the same low rate as the north, despite the much healthier concentration of businesses in the southwest. Metro Toronto and central Ontario are both strong and growing stronger.

The economic strength of Metro Toronto can be clearly seen, with its concentration of firms in finance, insurance and real estate. Its low share of transportation, communications and utilities is deceptive. If the distribution were by employment rather than number of firms, Toronto would have a larger share because this industry has one of the highest concentrations of large firms and Toronto has most of the big ones.

The central region has been a major beneficiary of the boom in the auto industry, as can be seen from its high share of manufacturing firms. The southwest has a well-balanced economy, although it does have a large share of the farming activity, which has suffered — but not as much as in other parts of Canada, because it is so diversified.

Chart 2.4<sup>12</sup>*Where Ontario's Business Is — And Will Be*

Regional comparison of the number of businesses and  
the number of business starts per 1,000 population



The number of firms per 1,000 population is taken from the Business Register produced by Statistics Canada in December, 1986. The business starts are registrations of new unincorporated businesses taken from data gathered by the Ministry of Consumer & Commercial Relations.

Table 2.8<sup>13</sup>*Where Industry Locates*

Percentage distribution of each industry among Ontario regions, 1986

Industry	Region					
	East	Central	Metro Toronto	South		Total
				West	East	
Primary	15	38	2	37	4	100
Mines	6	15	54	8	12	100
Manufacturing	8	44	31	12	3	100
Construction	14	43	20	15	6	100
Transport./Communications/Utilities	13	37	19	16	10	100
Trade	13	39	25	15	6	100
Finance/Insurance/Real estate	10	31	43	11	4	100
Services	14	34	32	12	6	100
Public Admin.	23	16	31	14	11	100
<b>Total</b>	<b>13</b>	<b>37</b>	<b>27</b>	<b>15</b>	<b>6</b>	<b>100</b>

<sup>13</sup>Business Register, Statistics Canada, December, 1986. It should be noted that the Business Register may overstate the count of firms because of time lags in reporting. The count may also be understated by firms that report a single head-office location rather than all locations. Firms with no employees are excluded.



Table 2.8 shows how the industries that have enjoyed strong growth in the past five years are more heavily concentrated in south and central Ontario (including Metro Toronto). The north and east rely more on industries that have been in difficulty and less on strong industries. Compared to its share of all firms in the province, the north has double its average share of mining, which has been hurt by the continuing commodity crunch throughout the 1980s. By contrast, the north's share of manufacturing firms is only half its average share. The east is also weak in manufacturing, in which its share of firms is also about half its average share of all firms — and its strongest sector is farming, which has suffered the same difficulties as mining. Both regions have a disproportionate share of public administration in the province, running about double their average share of all firms.

In this environment, small business becomes critical to the north, particularly. Table 2.9 shows that, as firms get bigger, they tend to drift to Toronto, which has more than half the firms employing more than 1,000 people, or almost double its share of small firms. The major exception to this is eastern Ontario where a significant government presence inflates the figures for large employers in the region.

Since services account for the lion's share of new jobs, it is useful to examine the distribution of service firms between the regions. Table 2.10 shows that the most dynamic sector, services to business, is concentrated most heavily in Toronto. The north has only half the share of firms in this sector that it has of all service firms. The north's service industry is heavily weighted toward accommodation and food, which has performed well in creating new jobs.

Table 2.9<sup>14</sup> *Where Firms Locate — Big, Small and Mid-Size*

Percentage distribution among regions within each size of firm

Firm size (# of employees)	Region					
	East	Central	Metro Toronto	South West	North	
					East	West
	%	%	%	%	%	%
Small						
None	13	36	28	16	5	2
1-4	14	37	26	15	6	2
5-9	13	38	25	15	6	3
10-19	12	38	27	15	5	3
20-49	12	37	30	13	5	3
50-99	11	36	34	12	4	2
Medium						
100-199	11	35	37	10	4	2
200-499	11	34	37	11	4	2
Large						
500-999	13	28	41	11	5	3
1,000-1,499	17	27	37	13	6	—
1,500-2,499	19	18	43	14	6	—
2,500-4,999	26	29	38	7	—	—
5,000+	33	15	52	—	—	—
Total	13	37	27	15	6	2
						100

Percentage weightings of types of service industry within each region

Type of Service	Region					
	East	Central	Metro Toronto	South		Total
				West	East	
Education	2	2	1	2	3	2
Health	14	14	13	16	14	14
Religious	5	5	2	8	5	4
Amusement and recreation	5	5	6	6	5	5
Services to business	21	22	30	18	13	23
Personal services	24	22	27	17	13	23
Accommodation/food	18	17	12	19	33	17
Miscellaneous	11	12	9	14	13	11
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

<sup>15</sup>*Ibid.*



# 3 The Genesis of Growth

The previous chapters have established clearly that small firms are providing the majority of new jobs for Ontario and Canada. But why? This chapter attempts to develop some patterns that will provide some explanations for the phenomenon.

The first observation is that small manufacturers are generally healthier in industries where the big firms are strongest. When big firms can compete internationally, they appear to create an environment in which smaller firms — both suppliers and competitors — can prosper. In Table 3.1, the manufacturing industries have been split into two — one part made up of industries that are dominated by big businesses (more than half of all jobs in the industry are in firms employing more than 500 people) and the other in small-business dominated industries. The resulting figures for job creation show clearly that all sizes of firms perform better in the big-business dominated sector. In the sectors dominated by small businesses, even firms employing fewer than 20 people, which were a strong force in creating jobs, didn't do as well as their counterparts in the big-business dominated sector.

**Table 3.1<sup>1</sup>** *The Influence of Big Firms, Canada, 1976-1984*

Percentage increase in net employment, by firm size, based on 1976 employment levels

Firm size (employees)	Manufacturing Employment growth in the sector dominated by:	
	Big business*	Small business*
0-19	48.9	40.2
20-49	14.5	1.4
50-99	-7.7	-12.3
100-199	-18.4	-24.9
200-499	-9.6	-26.9
500+	2.6	-5.5
<b>Total</b>	<b>2.2</b>	<b>-6.5</b>

The sectors dominated by big business accounted for 38% of total employment in manufacturing in 1976, 40% in 1984. The sectors are tobacco, rubber, paper, primary metal, transportation, communications & utilities, electrical, petroleum and chemical. The small-business dominated sectors are food, leather, textiles, knitting, clothing, wood, furniture, printing, metal fabricating, machinery, non-metal and miscellaneous.

Source: "A Study of Job Creation in Canada, 1976-1984". Statistical Analysis, Department of Regional Industrial Expansion. 1986.

The contrast is skewed by the automobile industry which employs almost a quarter of the people and which accounted for the entire growth in jobs in firms employing more than 500 people in the big-business dominated sector. Without the big auto companies, firms employing more than 500 in the big-business dominated sector would have had a miniscule decline in jobs.

Perhaps more surprisingly, this industry is the sole exception to the rule that small manufacturers prosper more when the big firms are successful. Small transportation-equipment manufacturers employing fewer than 100 people performed significantly worse than their counterparts in the small-business dominated sector.

For services, the pattern is slightly different. The big-business dominated sector is made up of the education and health industries, which are closely related to the public sector and which have demonstrated steady, but unspectacular growth. Average growth in this sector was 19% between 1976-84 compared to 31% for the small-business dominated industries.

However, the small-business dominated sector outperformed the big-business dominated sector only in the category of firms employing

**Table 3.2<sup>2</sup>**      *The Influence of Big Firms, Canada, 1976-1984*

Percentage increase in net employment, by firm size, based on 1976 employment levels

Firm size (employees)	Services	
	Employment increase in the sector dominated by:	
	Big business*	Small business*
0-19	120.0	38.3
20-49	31.0	25.5
50-99	14.3	24.3
100-199	22.1	14.5
200-499	15.2	-6.4
500+	16.3	55.7
<b>Total</b>	<b>19.3</b>	<b>30.7</b>

\* Big-business dominated sectors accounted for 36% of total employment in services in 1976, 34% in 1984. The big-business dominated sectors are education and health. The small-business dominated sectors are museums, social services, religion, amusement and recreation, services to business, professional services, personal services, accommodation and food and miscellaneous.

<sup>2</sup>*Ibid.*



more than 500 people. In small- and medium-sized firms, education and health sectors generally performed better than the rest, showing a similar pattern to that of manufacturing. (This is not true for firms employing 50-99, due largely to the accommodation and food industry. Since many small firms in this industry need to grow to 50-99 employees to become viable, job creation is skewed to this category among small firms, pushing up the job creation figures for the entire small-business dominated sector.)

In the 500+ category, three industries had outstanding growth — business services was up 139%, professional services 58% and accommodation and food 44%. The performance of firms employing fewer than 20 people in the big-business dominated sector was on a very small base, so it is not statistically significant.

The second pattern to the dominant role of small business in job creation lies in an examination of individual firms over a period, to establish which ones are the giant killers in job creation.

A study of the years 1978-1982<sup>3</sup> showed that employment in firms employing fewer than five people grew by 54.3%, and accounted for 11.7% of the new jobs created between 1978-1982. (These numbers do not coincide with those discussed in previous chapters because the period is different, but they are of the same order of magnitude.)

Despite this growth, firms employing fewer than five people accounted for only a marginally higher share of total employment in 1982 than they did in 1978 (8.5% versus 7.8%). The reason, as indicated previously, is that many of the growing small firms grew out of the category of firms employing fewer than five people, so they were put in a higher category in 1982 than they were in in 1978. If the firms that employed fewer than five people in 1978 are measured as a whole, without discounting the firms that grow into higher categories, their share of the total workforce increased to 11.2% in 1982 from 7.8% in 1978.

The same applies to firms that reduce their employment. Firms employing more than 500 people cannot grow into a higher category, but more than 10% of the firms in this study declined into smaller categories. These firms dropped more than a third of the jobs created by firms that stayed in the 500+ category. However, the firms that employed 100-499 people in 1978 and grew into the 500+ category created almost double the jobs lost by the declining big firms.

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Source: "An Analysis of Job Creation based on the T4 Employment Estimates Data Base 1978-1982". Statistical Analysis, Department of Regional Industrial Expansion. 1986.

By tracing these firms through their new categories, Tables 3.3 and 3.4 give a much clearer picture of the real source of job creation.

In all, 91% of the new jobs came from the 36,080 firms (5% of the total) that moved into a higher category over the four-year period. Among the 712,013 firms in 1982, there were four major sources of new jobs: those listed in Table 3.4. Most spectacularly, the 1,435 most dynamic small and medium-sized firms (0.2% of the total) created more than a quarter of all new jobs.

There is another side to this coin, of course. The smallest firms lead a considerably more precarious existence. Of the 449,393 firms in 1978 that employed fewer than five people, 41% had disappeared by 1982.<sup>4</sup> For firms employing 20-49 people, the death rate was a still-high 20%.

The most severe instability was in firms employing 20-99 people. Although their death rate was lower at 15%, less than half of the firms that existed in 1978 remained in the same category, while 24% shrank to a smaller category and 11% expanded into bigger categories. The net employment picture was relatively stable, however, with the growing firms contributing 26% of total new jobs and the shrinking firms dragging 24% away. The overall net gain in jobs over the period was 5%.

The largest firms had their share of job shrinkage from downsizing. A mere 168 firms that employed more than 500 people in 1978, but were in a smaller category in 1982, dragged 10% away from job creation. Downsizing was spread evenly over all size categories and took away two-thirds of the gains made by firms growing into larger categories.

Growth is clearly a high-risk activity. Among firms that started during 1978-82 and grew into a larger employment category by 1982, as many jobs were lost as were created — a 30% drag against a 31% gain. Discretion is the better part of valour, apparently, because the firms that started during the period and cut back their employment to drop into a smaller category made a bigger net contribution to job creation. The births of these cautious firms added 29% of new jobs, while the firms that went under despite the retrenchment dragged job creation down by 25%.

Safest of all during a period which covers the worst recession in Canada since the 1930s were the firms that started in 1978-1984 but didn't expand dramatically — an 84% contribution to job creation by the 41% of new firms that survived to 1984 and a 63% drag on job creation by the 25% of firms that didn't.

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<sup>4</sup>*Ibid.*

**Table 3.3<sup>5</sup>** *Contributions to Job Creation, Canada, 1978-1982*

Share of total job creation by firm size in 1978 and 1982				
Firm size in 1978	Firm size in 1982			
	Smaller size	Same size	Larger size	Total
	%	%	%	%
4	—	1.6	25.2	26.8
5-19	-14.9	1.7	21.1	7.9
20-49	-13.9	1.6	13.9	1.6
50-99	-10.1	1.4	12.1	3.4
100-499	-12.6	9.3	18.9	15.6
500+	-10.1	29.3	—	19.2
Total, Continuous				
Firms	-61.6	44.9	91.2	74.5
Births	28.8	83.8	30.8	143.4
Deaths	-25.3	-62.6	-30.0	-117.9
Total	-58.1	66.1	92.0	100.0

**Table 3.4<sup>6</sup>** *The Really Big Hitters in Job Creation*

Category (1978 and 1982)	Number of firms	Percentage of	
		Total firms	New jobs
1 Firms that stayed in 500+	1,533	0.20%	19%
2 Firms employing fewer than 5 in 1978 that grew their category	24,611	3.50%	25%
3 (including those that jumped to more than 2 employees)	1,116	0.15%	8%
4 Firms employing 5-19 in 1978 that outgrew their category	7,222	1.00%	21%
5 Firms employing 100-499 in 1978 that grew into the 500+ category	319	0.04%	19%

d.  
d.

The assumption that mid-sized firms have been the weak link in Canada is also cast in a different light by the performance of the 319 firms that employed 100-499 people in 1978 and grew into the 500+ category by 1982. They created 19% of the new jobs. Their replacements from smaller categories were not as strong — 1,235 firms went up a category from 50-99 but that accounted for only 12% of the new jobs. The net result was the now-familiar shrinking of the mid-sized categories.

In a similar study done for the period 1976-1984,<sup>7</sup> manufacturing emerges as the industry most likely to produce high-growth firms from the smallest firms. Of the manufacturing firms that employed fewer than 20 people in 1978, 7% grew into a higher category. Another 42% went out of business and only 51% remained in business in the same category. For all industries, 42% went out of business and only 2.5% grew into higher categories, split fairly evenly between manufacturing, trade and services.

Of the 2.5% of the firms that were in business in 1978 and grew into higher categories by 1984, 83% employed 20-49, the next biggest category. 12% grew to employ 50-99 people and the rest employed more than 100 — including 22 that employed more than 500.

Table 3.5 shows that 4.4% of the 2.5% of firms grew from having fewer than 20 employees in 1976 to having more than 100 in 1984. Although these are few in number (0.11% of the total or 435 firms), they are a major source of new jobs. The industry which has the most aggressive growth firms is finance, insurance and real estate, where 11% of the firms that employed fewer than 20 in 1978 had grown to 100+ by 1984 — but at a price of having the highest failure rate, too, at 51%.

Ontario and Alberta were the two provinces most likely to produce these high-growth small firms, with 2.8% and 2.9% respectively growing to a bigger category in 1984. They also had the highest failure rates at 43.9% and 46.7% respectively, emphasizing the inevitability of failures in higher risk situations. After these two, the next most active province was Quebec, confirming that province's shift into an entrepreneurial economy.

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<sup>7</sup>"A Study of Job Creation in Canada, 1976-1984". Statistical Analysis, Department of Regional Industrial Expansion. 1986.

1984 distribution, by size, of firms employing fewer than 20 people in 1976

Industry	Firm size in 1984			Percentage breakdown of 20 +			
	0-19	20+	Inactive	20-49	50-99	100-499	500+
Agriculture	72.1	2.0	25.3	79.6	17.0	3.4	—
Forestry	50.8	2.9	46.3	82.0	9.8	8.2	—
Fishing	71.3	3.7	25.0	63.6	27.3	9.1	—
Mining	45.7	5.1	49.3	76.1	14.9	8.9	—
Manufacturing	50.7	6.7	42.6	81.5	13.3	5.0	0.2
Construction	56.7	1.5	41.9	86.8	10.7	2.2	0.3
Transportation	49.9	4.1	46.0	81.0	13.6	4.8	0.5
Trade	57.0	1.6	41.4	88.4	8.9	2.6	0.1
Finance	46.5	2.9	50.6	70.5	18.6	10.9	—
Services	54.2	2.9	42.9	83.1	12.0	4.5	0.4
Total	55.2	2.5	42.3	83.4	12.0	4.4	0.2

\*Ibid.



Table 3.6<sup>a</sup> *The Types of Enterprise That Count for Jobs, 1976-1984*

Firm type	Share of job creation in Canada, by firm size and type					
	Firm size					
	0-19	20-49	50-99	100-499	500+	Total
	%	%	%	%	%	%
Independent	76.7	5.0	-4.6	-14.8	3.6	65.9
Subsidiary	1.6	-1.3	-2.2	-12.3	-4.4	-18.6
Headquarters (subsidiary)	5.8	1.7	-0.2	-3.4	-3.1	0.8
Headquarters (non-subsidiary)	0.3	0.6	-0.6	-7.2	-9.0	-15.9
Branch	2.9	1.2	1.6	2.9	59.1	67.7
<b>Total</b>	<b>87.3</b>	<b>7.2</b>	<b>-5.9</b>	<b>-34.7</b>	<b>46.2</b>	<b>100.0</b>



A final indication of the firms most likely to grow is the type of enterprise — independent, a subsidiary, headquarters (subsidiary or non-subsidiary) and branches. The polarization referred to earlier is laid bare in this analysis. Table 3.6 shows that 77% of new jobs in 1976-1984 came from independent businesses employing fewer than 20 people (which accounted for 56% of the employment base in 1976) and 59% came from branches employing more than 500 (which accounted for 20% of the employment base in 1976). All other size and enterprise-type categories are minor compared to these two.

The growth of the branches was dependent mainly on opening new branches, which accounted for 66% employment growth versus only 11% from expansions of existing branches. Branches were also closed more quickly, however, resulting in a 39% decline in jobs.

With the independent firms, growth came mainly from births as well (33%), but deaths were high at 30%. There was better net growth in expansions (19%) net of contractions (12%).



# 4 An Anatomy of Roaring Successes

In the army of entrepreneurs who are changing the face of our economy, there is an elite corps whose businesses are growing at exponential rates. These select few embody much of the dynamism that distinguishes the entrepreneurial sector. Their success is seldom due to luck or being in the right place at the right time. They have an approach to business and an attitude toward life that sets them apart, even from other entrepreneurs. They have become a source of acute interest as much for other entrepreneurs hungry for success as for governments anxious to preside over booming economies.

The Ontario government commissioned a study to find out more about these people.<sup>1</sup> The results of the study, titled *Ontario's Successful Businesses*, are clear-cut: these businesses are different.

"We've succeeded because of hard work. We identified specific market needs and went after them. We stayed abreast of the best technology money can buy and hired the most qualified people. We don't just talk about honesty and integrity, we practise it in everything we do. Our people have a big say in the running of the company — it's a family atmosphere." — Manufacturer.

Quotations from the interviews with the entrepreneurs illustrate the study's conclusions, but they cannot be attributed to the individuals, who spoke on condition their remarks be treated as confidential.

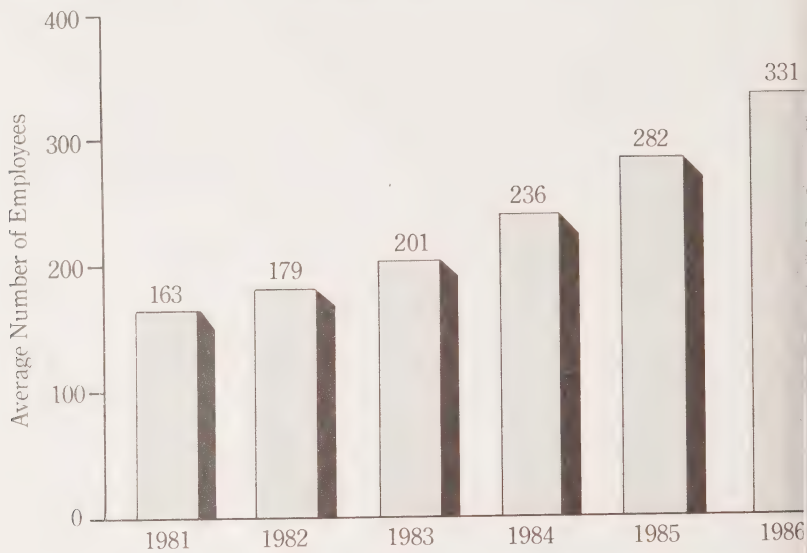
The study identified 84 businesses that met four criteria:

1. They had their head office in Ontario.
2. They were not subsidiaries of another firm.
3. They were founded in 1974 or later. Fifteen of the companies were not started from scratch but were bought by the current owner within the same time frame. They were included because the company was totally transformed by the new owner, representing virtually a new venture.
4. In 1986, the firm's annual sales were more than \$7.5 million or it employed more than 75 people.

<sup>1</sup> "Ontario's Successful Businesses", conducted for the Ontario Ministry of Industry, Trade & Technology by Decision Marketing Research Ltd. 1987.

The record of these companies is impressive. Chart 4.1 shows how employment has grown in these firms over the past few years.

**Chart 4.1<sup>2</sup>**      *Employment Growth in Successful Companies*



Three of these companies, all in manufacturing, grew to employ more than 1,000 people and another eight grew to employ 500-1,000. Excluding these giants, the average successful company employed 173 people full time, a still-impressive performance. The successful firms also employ a lot of part-timers, averaging 146 per firm.

These firms are also major employers of the groups that are generally underrepresented in the employment statistics. People under 30 accounted for almost half of the total employment versus only slightly more than one-quarter for the entire labour force.<sup>3</sup> Women accounted for 45% of their employees versus 34% for the whole labour force.

Table 4.1 demonstrates the impressive growth in annual sales of these firms — 19% a year, through the toughest recession in more than 50 years.

<sup>2</sup>*Ibid.*  
<sup>3</sup>Source: “*Demographic and Earnings Profile of Business Employment. 1984*”. Statistics Canada, Small Business Statistics, Business Microdata Integration and Analysis. April, 1987.

**Table 4.1<sup>4</sup>**      *The Growth Record of the Successful Companies*

	Average sales growth			
	All sectors	Manufacturing	Retail	Service
Sales 1981 (\$ million)	\$16	\$24	\$16	\$10
1985 (\$ million)	33	43	43	17
Growth 1985/1981 (%)	103	81	173	67
Annual compound growth (%)	19	16	29	14

To put this record in perspective, the average growth numbers conceal the difficulties of some of the sampled companies as a result of the recession. Fully 15% of the firms had lower sales in 1985 than in 1981. Yet they had still shown remarkable growth to 1985 from the time they were founded. Even for the three-quarters of the firms that had higher sales in 1985 than in 1981, the economy demanded a lean operation: only 58% had expanded their facilities, while 73% had expanded their staff.

"In the last five years, the firm has contracted in size. We have fewer employees for the same number of jobs and functions — people have taken responsibility for two jobs."

— Manufacturer.

The outlook for the next five years is less restricted, with 88% of the entrepreneurs expecting sales to grow and 70% expecting staff and facilities to grow.

So what are these firms like? 94% of them are entirely domestically-owned. There is an unusual concentration of manufacturers, more than double the share of the general population of entrepreneurs. They were quicker to incorporate than most and 12 of the 84 have listed their shares on the stock exchange. Franchises are a popular route to growth — one-fifth of the total and half of the retail operations in the sample are franchisors or franchisees.

The entrepreneurs themselves are a breed apart. Compared to the general population of entrepreneurs, they are older, better educated and, so far, they tend to be men. A study of a comprehensive cross-section of startup firms in Ontario during 1982-1984<sup>5</sup> examined 861 new

Source: Based on information contained in "Ontario's Successful Businesses," conducted for the Ontario Ministry of Industry, Trade & Technology by Decision Marketing Research Ltd. 1987.

Source: "Newly-Formed Small Businesses in Ontario, 1982-1984". Conducted for the Small Business Branch, Ministry of Industry, Trade & Technology by The Creative Research Group. 1985.

businesses registered during the period. While almost one-quarter of this larger group were started by women, all but one of the successful companies were led by men.

Almost none of the entrepreneurs running the successful companies were younger than 30 while a sixth of the large group were. The concentration of people aged more than 50 was correspondingly higher for the successful companies. Finally, two-thirds of the successful entrepreneurs have university degrees, double the rate for the large group.

Oldest sons appear to have an edge over their less fortunate siblings (if they want to become an entrepreneur). Almost two-thirds of the entrepreneurs running successful companies were the eldest child, the eldest male child or the only child. They tend to come from larger families, too — more than a third had three or more siblings.

Consistent with other research, their fathers come mostly from executive and entrepreneurial backgrounds.

A little more than half of these entrepreneurs are founders who have owned their firm from the beginning — some of the rest bought operational companies and several had helped start the firm, then taken it over from the founder.

A major international study<sup>6</sup> has delineated two principal entrepreneurial types — craftspeople and businesspeople or opportunists. Their characteristics are repeated across cultural and national boundaries. The former seek perfection in their product or service, have a strong need to prove themselves, want to make a lot of money and aim to build something for their children. The latter are motivated by the imperatives of the business rather than personal feelings and are mainly interested in the business prospering. For them, personal wealth is a side-benefit (enjoyed and appreciated but not the be all and the end all). The prototypes are unmistakable in the two groups of people studied in Ontario, as Table 4.2 shows.

For the cross section, the major influences are previous experience in the same type of business and a background of skilled labour — an unmistakable indication of the large component of craftspeople in the average entrepreneurial firm. In the successful companies, that component is absent.

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<sup>6</sup>A major survey of almost 4,000 entrepreneurs in 11 countries, including Canada, was conducted by SKIM Industrial Market Research, based in the Netherlands. The sample in each country was 180 firms older than 5 years that have grown at least as fast as GNP plus another 180 firms less than five years old.



Table 4.2<sup>7</sup>*Previous Experience of Entrepreneurs*

Comparison of the previous experience of a cross section  
of 861 entrepreneurs and 84 successful companies

	Cross section of 861 entrepreneurs	84 successful entrepreneurs
	%	%
Worked in this type of business before	78	64
Other relevant experience	7	35
No previous experience	15	1
Previous experience in running a business	60	81
<b>Previous job:</b>		
Executive/owner/manager	42	81
Professional	10	7
Sales	9	5
Clerical/white collar	10	1
Skilled labour	21	1
Unskilled labour	3	0
Student	2	4
Other	2	1

"I didn't know anything about [this business]... What I bring to [this business] is common sense. I sit here and I look at what's happening on the floor and I can see what's a problem. So then I can see what to do to solve it too — that's what I do for this business." — Service company.

More than a third of these people have only indirect experience in their type of business and more than 80% of them come from an executive background with experience in running a business. The cross section, by contrast, has far fewer executive types and somewhat less experience in running a business. Fully 15% have no previous experience, relevant or otherwise, in their type of business.

Half of the successful entrepreneurs who came from a background executive, owner or manager had a title of President, General Manager or Vice President. These people, moreover, are more likely to start their own businesses in an industry in which they have no direct

Source: "Ontario's Successful Businesses," conducted for the Ontario Ministry of Industry, Trade & Technology by Decision Marketing Research Ltd. 1987.

experience. More than a third of the people who had no previous experience in their business had been an executive, an owner or a manager while only 21% of those who had previous experience in their type of business came from this background.

People with financial backgrounds, particularly accountants, appear to be most confident of their ability to thrive in strange environments. One-third of the people who had no previous experience in their business have a C.A. or a financial background versus 16% in the group that did have direct experience.

Half of the successful entrepreneurs and one-third of the cross section have started other businesses previously, averaging about three businesses each. The successful entrepreneurs have a better track record, however, with almost two-thirds of their businesses still active, compared to 41% for the cross section. The founders among the successful entrepreneurs were less likely than the rest to have started other businesses — only 42% have done so and they started an average of two businesses each, less than half the average for non-founders.

These, then, are the people. Why have they been so successful? They are a great deal more ambitious than the average entrepreneur, as three-quarters of them wanted, when they first started out, to grow into a really big firm. Only half the cross section feels that way. Like all entrepreneurs, they want to be their own boss.

“I couldn’t work for anybody else. I can’t take direction.” —  
Service company.

They also want to make money and they figure they have seen a market opportunity for which they have the relevant experience. Unlike most entrepreneurs, they are more likely to have always wanted to run their own business. They also are more likely to do so on their own terms, rather than being forced into it out of economic necessity.

There is a remarkable degree of agreement in their own assessments of why they succeed. Table 4.3 shows how they rate the strengths of their businesses and the reasons for their success. There’s not always consistency between the two.

**Product quality** covers product, service, product quality, better products/services; attitude to client, customer service; catering to customers’ needs; technical strength, keeping up with technology; reputation, high standards, well-known brands; full range of products/services.

**Management** covers good management, good leadership; understanding markets, the industry, recognizing opportunities; hands-

Table 4.3<sup>8</sup>*Entrepreneurs' Secrets of Success*

Number of volunteered mentions of business strengths and reasons for success, expressed as a percentage of the respondents

Characteristic	Strengths	Reasons for success
	%	%
Product quality	80	115
Management	91	86
Good people	83	64
Character	24	53
Efficiency	16	21
Location	23	6
Financial strength	7	2
Lack	0	5

management, managerial control; marketing practices, good marketing; planning, good strategy; right time, timing; entrepreneurship.

**Good people** covers people, personnel, fine team, good staff, competent employees; loyal employees, motivated, dedicated; staff expertise, well-trained staff; input from staff; profit sharing; hiring qualified people.

**Character** covers desire for expansion, willingness to take risks; integrity, honesty, sound principles; hard work; stability, long-term commitment.

**Efficiency** covers competitive prices; low-cost operation; challenge of competitors.

**Location** covers location; local involvement; we're Canadian, belief in Canadian products.

Quality of product or service is clearly the item most successful entrepreneurs like to rely on. The 84 entrepreneurs in this study mentioned product quality, in various guises, as the reason for their success 98 times.

"The key is attention to detail, concern with customer needs, lack of greed. It's giving the customer the right product at the right price. Keep in mind 'tomorrow' — that you're not just in business for today." — Retail and service company.

The other major secrets of success are management and leadership, good employees and the sterling character traits of the entrepreneurs.

"The people involved in our company are our strengths. A goal-oriented organization — our employees are taught to think in a positive manner and know where the company is going." — Service company.

"I think we're successful because of a mixture of hard work, which we like, brains and fear. People, of course. Of course! Staying out of trouble, knowing the downside. Prudent opportunism and quick movement." — Manufacturer.

"I'm a great believer in a company's success — a combination of determination, enthusiasm and expecting the best from all employees. My staff works with me because we have fun — we have parties together. We don't stop spending money on the staff and if we take them to lunch, we pay. If someone has a problem, we take care of it. Full-time employees get a share in both the growth and the profit. Part-time employees are rewarded with cash bonuses, no shares." — Retail and service company.

"There is nothing that is not correctable in our company. We are very quick to respond to problems and our small management team is loose, flexible in thinking and responding." — Retail company.

The top four secrets of success were also rated the top four strengths of the successful businesses — but in quite different rankings. They ranked their own management as the most important strength, with more mentions than they gave it for their secrets of success. While they ranked their employees as a great strength of their businesses, second only to management, they feel that their employees' contribution to the success of their businesses is somewhat less significant. By contrast, they did not mention their own character traits too often as a source of strength of the firm, yet they cited those traits twice as often as a significant contributor to their firms' success. Product quality and character received significantly less attention as a strength of the business than they did as reasons for their success.

Not surprisingly, financial strength is not high on the list of strengths. By definition, an entrepreneur is someone who creates wealth with inadequate resources, so if financial strength was a major factor in their businesses, they wouldn't have to be entrepreneurial.



Luck, equally unsurprisingly, doesn't feature as a strength, but it also hasn't impressed the successful entrepreneurs as being responsible in any serious way for their success.

Looking at these same responses by sector, the patterns are similar between manufacturing, retailing and service companies. However, the people who bought operational companies had some marked differences in their view of the reasons for the success of their firms. Product quality was rated a great deal higher, receiving proportionately half as many mentions again as the whole group. These people rated their employees a lot lower (59%) as well as their own characters (40%).

The perceived weaknesses of the successful firms are the reverse reflection of the perceived strengths. Financial constraints are mentioned most often. However, when all the mentions are added up under various guises, the biggest concern is management, with mentions numbering 67% of the respondents, followed by employees with 53%.

"We're a little set in our ways. . . We have a tendency to deal with many opportunities at the same time. We lack some classical departments, such as marketing and personnel. We're still young and have not defined strategies." — Manufacturer.

"We're perhaps slow to react to market conditions because of loyalties. There are now a hundred competitors where 10 years ago we were alone, so we need to work on market share." — Service company.

"We have outgrown a lot of our people — they could get the job done before and now can't. There comes a time when entrepreneurial style has to be twinned with a more organizational management." — Manufacturer.

"People don't want to work. Life is no free ride. I believe the children today are not being taught. This new generation is frustrating; no-one trains them for the real world. It's a real problem." — Manufacturer.

Competitors and the market generally are not a major concern, as might be expected from successful companies, although these factors are mentioned by a third of the sample. Government really doesn't bother them much as a group, although it bothers some of them a lot.

"A real problem is government red tape over so many things: They are slow and inefficient in tax and health departments and especially the W.C.B. We don't get responsible, hard workers out of the schools either. In spite of this, we're strong and have grown. We have a lot of trouble with some of the union rulings because they insist that someone can keep climbing up the ladder whether they are qualified or not." — Manufacturer.

There are significant variances in their perception of weaknesses between the sectors, as Table 4.4 shows. The manufacturers worry most, mentioning 45% more problem areas than retailers and service companies. The manufacturers are particularly concerned with financial constraints and their own management (77%). The owners of bought companies, most of whom are manufacturers, rated their own management as much less of a problem than did the rest of the entrepreneurs and they rated their employees as a much bigger problem than the others. One in 10 of the entrepreneurs said they had no weaknesses at all — led by the those in the service industries, one in five of whom feel they have no weaknesses.

**Management** covers too rapid growth, too big too fast; weak management; marketing, no marketing department; not enough management; lack of internal communication; normal growing pains; small, can't produce fast enough; set in our ways; external management systems; need to solidify our long-term planning systems.

**Staff** covers lack of trained staff; lack of motivated staff; staff productivity; lack of available qualified staff; staffing problem, turnover; no personnel department; union rulings, organized labour; schools don't produce responsible workers; skilled workers.

**Competition/market** covers market conditions; severe competition, imports; changing times; only in Canada, no export market.

**Government** covers government red tape; lack of government support; taxes.

The concern with financial constraints becomes crystal clear in the light of the size of the investment made in their businesses by the successful entrepreneurs. When they started their firms, they invested on average, 72 times the amount invested at startup by the cross section of entrepreneurs. That's \$2.4 million versus \$33,000 by the cross section. These numbers are heavily weighted by 18 really big startups, fifth of the sample, which had average startup investments of more than \$8 million each. Much of the weight of these investments comes from



Number of volunteered mentions, by industrial sector, of weaknesses in the successful entrepreneurs' businesses, expressed as a percentage of the respondents

Sector	No weakness	Manage- ment	Staff	Competition or market	Financial constraints	Government
	%	%	%	%	%	%
Manufacturing	3	77	55	55	31	8
Retail	10	55	50	25	20	5
Service	19	52	56	18	16	15
Bought firms	—	48	67	54	40	7
<b>All sectors</b>	<b>11</b>	<b>67</b>	<b>53</b>	<b>34</b>	<b>21</b>	<b>10</b>

<sup>9</sup>*ibid.*

the companies that were bought as operational concerns. The five biggest of them had an average investment of more than \$15 million each.

“We started as a junior [type] company controlled by someone else. We now have our own operations, renegotiated by new management. It took \$160 million — which shows the market believes in us.” —Leveraged buy-out.

The remaining 13 of the 18 major investors averaged \$6 million. Without the five biggest investors, the average for the whole sample drops to \$1.4 million from \$2.4 million. Without the 18 major investors, the other 66 entrepreneurs averaged an investment of \$350,000 — still more than 10 times the average for all entrepreneurs. In the cross section, 80% had investments of less than \$50,000 versus 24% for the successful entrepreneurs.

The service businesses are remarkable for their far smaller capital requirement at startup — an average of only \$700,000. Half the service firms started with less than \$100,000 versus a third for the whole sample.

Table 4.5 shows the sources of financing for the successful firms. The most striking observation is that the successful entrepreneurs' reliance on conventional financial institutions is more than double that of the cross section. The successful entrepreneurs also relied far less on their own financial resources, with almost half putting none of their own money into their new venture, whereas every single one of the cross section put up some money themselves. Three-quarters of the entrepreneurs who bought companies put none of their own money into them. The successful entrepreneurs also sought out other investors to a far greater degree, although they had about the same degree of success in persuading their friends and relatives to invest in them.

For refinancing, the picture changes significantly. All the entrepreneurs rely more heavily on conventional sources of financing, as might be expected, although one-third of the cross section still keeps away from banks. The successful entrepreneurs also put a lot more of their own money into the company once it's established than do the entrepreneurs in the cross section, most of whom don't put in any more at all after startup. Relatives and friends continue to play an important role in the cross section's attempts to refinance, but they disappear from the successful entrepreneurs' plans once the business is going.

Table 4.5<sup>10</sup>*Where the Finance Comes From*

Sources of funds at startup and for refinancing				
Source of funds	Cross section		Successful businesses	
	Incorporated	Unincorporated	Total	Bought cos.
	%	%	%	%
<b>At startup</b>				
Banks/financial institutions	28	25	66	80
Relatives	9	20	17	13
Friends	6	11	6	7
Other investors	9	6	25	13
Partner	10	6	—	—
Own money	100	100	54	27
Earnings	3	2	—	—
Government	*	—	3	—
Related company	—	—	14	20
Other	*	1	2	—
<b>For refinancing</b>				
Banks/financial institutions	74	60	94	80
Relatives	13	18	—	—
Friends	6	13	—	—
Other investors	11	5	8	13
Partner	2	1	—	—
Own capital	6	6	35	40
Earnings	7	11	—	—
Government	1	4	11	7
Other	—	1	2	—

\*less than half of one percent

<sup>10</sup>*Ibid.*

Almost two-thirds of the successful companies use government assistance of some kind or other, although not usually for financing. Government financing is barely used at startup by either the cross section or the successful firms. However, once they're established, a tenth of the successful businesses use financial assistance from the federal government, 7% from the provincial government. Only 5% use Small-Business-Loans-Act loans and 4% use Small Business Development Corporations.

The most popular contributions from governments are salary assistance programs (used by a third of the successful companies), mostly in retail and service firms where more than half use them. Manufacturers, however, are the biggest users of government programs, probably because so many of the programs are aimed exclusively at the manufacturing sector. The other popular programs are the federal government's PEMD (Program for Export Market Development) and the provincial government's TIBI (Training in Business & Industry), both of which were used by a quarter of the manufacturers.

The successful companies are typically activists. They like running the show — only a fifth of them think they need to delegate more — and they're hands-on managers. Three-quarters of them made organizational changes in the last five years, mostly restructuring, increasing management and expanding facilities.

"We have had a total reorganization. We have only one manager with us now from the old days (before we bought). We have put in a strong middle management force and a good re-education program. We are totally computerized." — Manufacturer.

The companies that had been bought made fewer changes, presumably because a going concern needs fewer adjustments than a startup, but one-fifth of these companies added skilled workers, double the rate of the rest of the group. The other area where the bought companies were more active was in changing the ownership structure, again a common occurrence when large sums have been invested in a takeover.

These people view the future with some equanimity. A third of the bought companies and a fifth of the whole group say they expect no changes or only minor changes in the next five years. They also expect to stay in the same place. Two-thirds of them haven't moved in the past five years and most of the rest stayed within the same municipality when they did move. They expect more of the same for the next five years.

Which brings us to planning. Most of them have formal, written plans, even though more than half of them didn't have one when they started up. Retailers, half of whom are franchises, almost all have formal written plans. Presumably the big-leaguers who invested more than \$1 million at startup had full-scale plans — investors don't put out money on that scale without one — and only 40% of the entrepreneurs who bought operational companies started out without a plan. Nevertheless, it is surprising that a higher proportion of the cross section started out with a formal plan than the successful group.

“We know where we're going but there is nothing written in stone. I don't believe in *written* anything. A new business doesn't have time to think of that. You just get on with it! I feel that you need to be flexible — you don't have the luxury to sit around and make plans, especially written ones. We had a plan! We wanted to take 25% of the market and we knew we had to do that. We only needed to know that and we did it. Without a written plan.” — Manufacturer.

They're different, and unpredictable. That's why they succeed.





# 5 Government Imperatives and the Small Business Response

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The newly prominent role of small business as a driving force in the economy has had an unexpected result: governments seeking efficient ways of implementing social policies no longer regard small businesses as peripheral. As their economic weight begins to be felt, small businesses are beginning, in turn, to feel the weight of government priorities.

The most significant initiative in Ontario in this respect has been the passage this year of legislation governing equal pay for work of equal value. A second set of initiatives, equally far-reaching, is the intense scrutiny of the tax system at both federal and provincial levels.

Much of the fierce debate over pay equity revolved around the ability of small businesses to handle the administrative workload imposed by such a complex system. The extra paperwork would be a heavy burden. Most of all, however, the majority of the entrepreneurs who own and run these businesses simply don't have the time or the resources to grapple with elaborate personnel systems.

## Personnel Practices

A recent survey<sup>1</sup> in Ontario of 302 small firms employing fewer than 100 people found that only 5% of them said they have personnel managers. Even in firms with 50-99 employees, only 11% have personnel managers. Most owner/managers delegate the major responsibility for the personnel function, with only slightly more than a third handling the responsibilities themselves on a part-time basis.

Inevitably, small businesses don't build elaborate, formal systems to define their employees' jobs, evaluate their performance within those definitions and pay them salaries according to pay scales geared to the evaluations. That doesn't mean salaries don't reflect performance, however. Almost half of them have special arrangements such as bonus plans, stock plans or merit pay. Two-thirds of these plans are aimed at all employees and the balance are intended mainly for management and professional employees. The larger firms in the small-business category

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Source: "Pay Equity and Ontario's Small Business Sector", prepared by Urban Dimensions Group Inc. for Small Business Advocacy in Ontario's Ministry of Industry, Trade & Technology.

are more likely to have these special compensation plans but even the smallest, with fewer than 10 employees, use this approach in about a third of the firms.

When it comes to the nitty gritty of personnel systems, small firms are not keen practitioners of the art. Three-quarters of the small firms in this survey have no formal procedure for drawing up job descriptions. Most of them feel it is too difficult to define specific jobs ("everyone does everything") or the tasks to be described are self-evident and therefore don't require a formal description. Most of them say they give their employees verbal job descriptions, however.

Table 5.1 shows that only one-sixth of the small firms perform job evaluations. As might have been expected, the larger firms are more likely to have formal systems. There is, however, a strange blip where firms employing 10-19 people seem to be more likely to have job descriptions and evaluations than firms employing 20-49 people. There is no obvious explanation for this.

**Table 5.1<sup>2</sup>** *Personnel Systems Are Rare in Small Firms*

Firm size (# employees)	Percentage of firms having	
	Job descriptions	Job evaluations
	%	%
1-9	8	14
10-19	30	16
20-49	21	13
50-100	38	25
<b>All sizes</b>	<b>24</b>	<b>17</b>

Of the firms that do have formal systems for job descriptions, most have fairly detailed or very detailed descriptions. Half of them change the description as the need arises (when the job's function changes or a new employee takes the position) and half change at regular intervals.

In designing their job descriptions, almost all of them pay attention to the job activities, management role, responsibility and supervision. Very few of them pay attention to emotional or time pressures, physical working conditions and travel. A little more than half consider skills and education, equipment used on the job and contact with the public.

If there are no formal job evaluations, by far the most common basis for setting salaries is management's judgement of merit, followed by the

<sup>2</sup>*Ibid.*

firm's ability to pay (see Table 5.2). The smallest firms employing fewer than 10 people reverse these rankings. They think ability to pay is the most important factor and they devote below-average attention to merit.

**Table 5.2<sup>3</sup>** *What It Takes to Get a Raise in Small Firms*

Factor	Percentage of firms that consider the factors shown in setting wage and salary rates				
	Percentage considering the factor by firm size				
	1-9	10-19	20-49	50-100	All sizes
	%	%	%	%	%
Merit	50	60	74	76	63
Ability to pay	54	38	34	27	36
Supply & demand	24	16	31	29	26
Seniority	4	12	7	15	9
Expertise	6	7	4	10	6
Employee's future prospects	6	—	4	2	4
Collective bargaining	1	2	4	8	4

The only other significant factor is "supply and demand" or the marketplace, which is ranked as the third most important factor by all the sampled firms. This usually means they assess the market through individual situations, such as when competing job offers are made to valued employees, and by informal consultation with other employers in the same area or business. Some professional practitioners of personnel systems discount this practice, preferring market research that involves elaborate wage and salary surveys, but when there are so few people involved, scientific surveys are largely irrelevant anyway.

Contrary to popular belief, small firms are quite progressive in the employee benefits they provide. Table 5.3 shows that the most popular benefits are group life insurance, company-paid OHIP or a private medical plan, compassionate leave and severance pay. The least popular, by far, is paid maternity leave. Pension plans are offered by only 37% of small firms.

It is notable that the firms employing 20-100 people are twice as likely to offer employee benefits as the smallest firms, employing fewer than 20. Also, the benefits the smallest firms provide reveal different priorities, with medical plans and short-term sickness rating high and group life insurance rating relatively low.

**Table 5.3<sup>4</sup>** *Employee Benefits Offered by Small Firms*

Benefit	Percentage of firms offering a given employee benefit				
	1-9	10-19	20-49	50-100	All sizes
	%	%	%	%	%
Group life insurance	21	59	81	89	63
OHIP or private medical plan	28	43	66	89	58
Bereavement leave	28	59	64	84	58
Severance pay	32	54	67	78	58
Short-term sickness	31	50	59	76	53
Long-term disability	17	48	66	69	50
Vision care, hearing, dental	20	52	58	75	51
Pension plan	n/a	n/a	n/a	n/a	37
Paid maternity leave	11	16	18	21	16

### Women at Work

The average wage paid to women in Ontario is about 62% of the average wage paid to men. This gap has fallen only three percentage points in the past 18 years, despite many attempts to deal with it.

According to the green paper on pay equity, the overall 38% wage gap is the result of four major differences between the work performed by men and women:

1. Women work fewer hours than men 16%
  2. Women's workforce experience, education and degree of unionization is less than that of men 5%-10%
  3. Women are concentrated in certain job ghettos which are rated relatively low for salary purposes 10%-15%
  4. Some employers are still not respecting the law requiring equal pay for equal work 5%
- All factors 38%

The job ghettos are striking. Females account for 98% of typists, 92% of nurses and 69% of people in food services. By contrast, they account for only 2% of construction workers, 10% of engineers and 32% of university teachers.

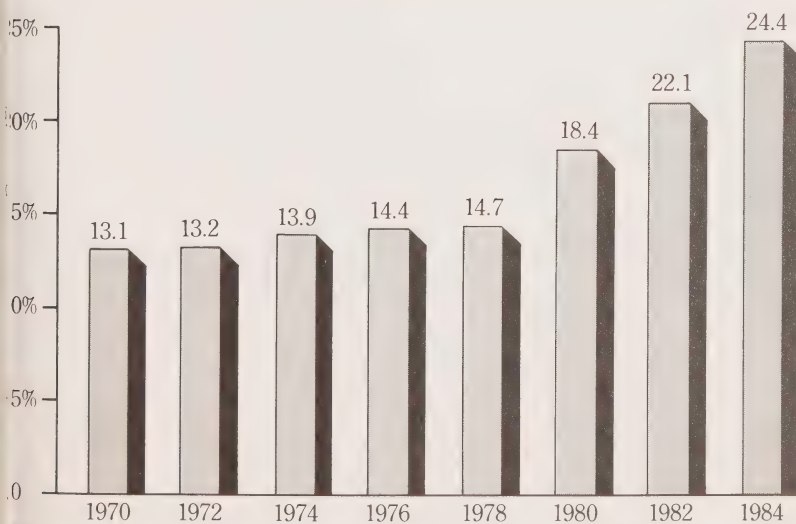
<sup>4</sup>*Ibid.*

**Table 5.4<sup>5</sup>** *Concentration of Women by Occupation*

Occupation	Percentage of women workers
	%
Clerical	79
Services	61
Sales	45
Managerial and professional	37
Materials handling	35
Farming, fishing, forestry	26
Manufacturing	21
Transport equipment operators	10
Construction trades	2
Others	27

There is one occupation that is changing quickly. Chart 5.1 shows how women entrepreneurs are moving perhaps faster than in any other area to increase their share of their occupation.

**Chart 5.1<sup>6</sup>** *Percentage of Entrepreneurs Who Are Women, Canada, 1970-1984*



Source: "Green Paper on Pay Equity", Honourable Ian Scott Q.C., Attorney General and Minister Responsible for Women's Issues.  
Source: Revenue Canada.



Table 5.5 shows how much the concentration of women workers varies between industries. It's notable that the smallest firms employ a significantly higher percentage of women than all other sizes of small business in every industry except manufacturing.

**Table 5.5<sup>7</sup>** *Female Job Ghettoes, Canada, 1983*

Industry	Female employees as a % of male employees by firm size (employees)			
	0-4	5-19	20-49	50-99
Primary	41	33	24	24
Manufacturing	48	44	47	56
Construction	16	11	8	6
Transport, Communications & Utilities	41	30	25	31
Wholesale Trade	51	41	45	47
Retail Trade	89	64	64	60
Finance, Insurance & Real Estate	106	101	107	82
Services	184	138	123	119
<b>Total</b>	<b>75</b>	<b>65</b>	<b>62</b>	<b>63</b>

## Pay Equity

The Ontario Women's Directorate estimates that the pay equity legislation introduced earlier this year can remove between a quarter and a half of the wage gap for women. However, as the law is drafted, its effectiveness will rest to a significant degree on how well the system works for small businesses, which employ about half of the working women in the province.

Since small businesses don't have to post formal plans for meeting the provisions of the law, many of the disputes will be individual cases. These can be dealt with by arbitration or by formal hearings before the Pay Equity Hearings Tribunal. A great deal will depend on the quality of the communication between employers and their employees, which will determine the degree to which both will resort to legal proceedings to settle their differences.

There is moreover some doubt as to the level of understanding of

<sup>7</sup>Source: "Achieving Pay Equity in Small Businesses in Ontario", prepared for the Policy and Research Branch of the Ontario Women's Directorate, by Blackhurst van Beinum & Associates.



pay equity in small businesses. The survey of small firms<sup>8</sup> referred to earlier found that 54% of the firms with fewer than 10 employees said they already had pay equity and 22% said they could implement pay equity in less than a year. Only 12% didn't know how long it would take them to integrate pay equity into their personnel practices.

By contrast, only a quarter of the firms employing 50-100 people said they already have pay equity and 41% said they didn't know how long it would take them to implement it. The inference is that the smallest firms don't appreciate just how much is involved in pay equity. The government accordingly decided to exempt entirely the smallest firms from the provisions of the act.

Even for firms employing 10-100 people, the lack of understanding of pay equity is a significant barrier to strict enforcement of the legislation. Less than a quarter of the firms in the survey mentioned above realized they would have to develop some method to take account of their employees' skills, effort, responsibilities and working conditions. The government accordingly made the process less rigorous for these firms, although they still have to comply with the law's provisions.

The main elements of the pay equity legislation as it affects small business are as follows:

- . The act does not apply at all to firms with fewer than 10 full-time and permanent part-time employees.
- . Employers with 10-99 employees are covered but they do not have to prepare a pay-equity plan outlining the areas of discrimination and measures planned to correct them. However, employees can complain about inequities and, if they do so, employers have to defend themselves before pay equity officers. Part of that defence will involve preparing assessments comparing jobs performed primarily by men with those performed primarily by women. If pay equity officers deem there are pay inequities, they can issue orders to the employers to adjust their wages accordingly. That order can be appealed to the Pay Equity Hearings Tribunal. Failure to comply can incur fines up to \$25,000 for a firm, \$2,000 for an individual. Employers are not allowed to penalize employees who lodge complaints and employees who make trivial or frivolous complaints may be refused a hearing by the Review Officer.

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source: "Pay Equity and Ontario's Small Business Sector", prepared by Urban Dimensions Group Inc. for Small Business Advocacy in Ontario's Ministry of Industry, Trade & Technology.

## 5 Government Imperatives and the Small Business Response

3. Complaints can be lodged five years (50-99 employees) or six years (10-49 employees) after the effective date of the legislation.
4. Adjustments for pay inequities are limited to 1% of the previous year's total payroll.
5. Pay inequities exist when there are two job classes in the same establishment, one dominated by women (more than 60% women) and the other dominated by men (more than 70% men), that are comparable in value but paid different wages. An establishment is defined as an operation within a regional municipality, county or territorial district. An employer that has a warehouse in Ottawa and a plant in Toronto does not have to achieve pay equity between the two operations — only within each of them.
6. Comparability is assessed by rating jobs on the basis of four criteria:
  - Skill
  - Effort
  - Responsibility
  - Working conditions.The jobs can be rated on these criteria by any reasonable method chosen by the employer. This could be ranking the jobs within each criterion and then adding up the rankings for each job. It could be more complicated with points assigned for each criterion and then adding up the points for each job.
7. Wage differences can exist for reasons unrelated to gender — e.g., merit, skills shortages, seniority, hours worked, differences in education, experience, etc.
8. The Pay Equity Office will provide people to address seminars and to advise individual firms on the policies and requirements of the legislation.

### Payroll Taxes

Taxing employers for employing people has long been a bone of contention in small businesses, which tend to be more labour-intensive than big businesses. In the past few years, this issue has been exacerbated as payroll taxes have grown significantly as a percentage of wages and salaries.

A recent survey<sup>9</sup> found that the higher level of payroll taxes now

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<sup>9</sup>Source: "Small Business Payroll Taxes, 1986". Prepared by Jackie Wood for the Small Business Branch, Ministry of Industry, Trade & Technology.

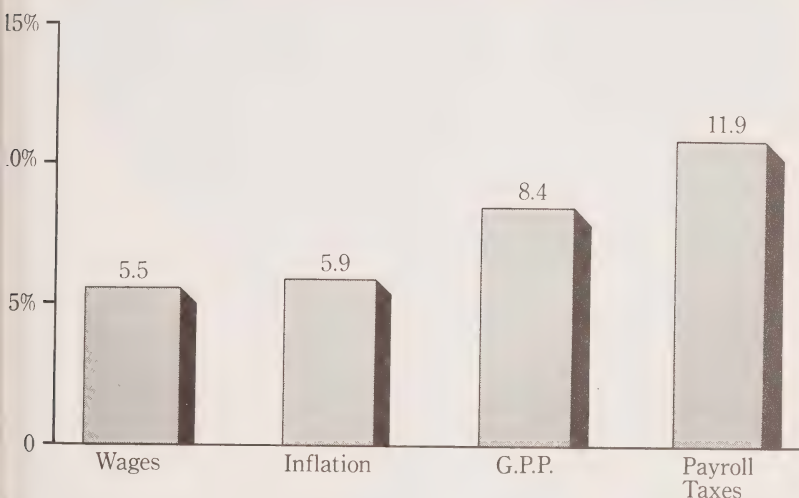
threatens to deter small firms from hiring and to impair job creation. Among firms less than three years old, two-thirds said they consider payroll taxes when hiring. Even among manufacturers employing 50-100 people, 40% said they consider payroll taxes when hiring.

Payroll taxes as a whole rose almost 90% between 1981-87, far outweighing inflation, wage increases and growth in the Gross Provincial Product, as Chart 5.2 illustrates.

**Chart 5.2<sup>10</sup>**

*The Payroll Tax Load, 1981-1987 (1)*

Average annual increases in payroll taxes  
compared to key economic indicators



The bulk of the increase in payroll taxes came from Workers' Compensation Board premiums, which rose 149% over the six years, exceeding the combined annual increases of premiums for Unemployment Insurance and Canada Pension Plan. Chart 5.3 shows how payroll taxes per employee have grown over the six years.

To grow this fast, payroll taxes have had to increase more than 11% year during 1981-87. Table 5.6 shows how this has raised the proportion of salaries that employers have to pay for payroll taxes.

Source: "Small Business Payroll Taxes, 1987". Prepared by Jackie Wood with the assistance of Allison Barr, for the Small Business Branch, Ministry of Industry, Trade & Technology.

Chart 5.3<sup>11</sup> *The Payroll Tax Load, 1981-1987 (2)*

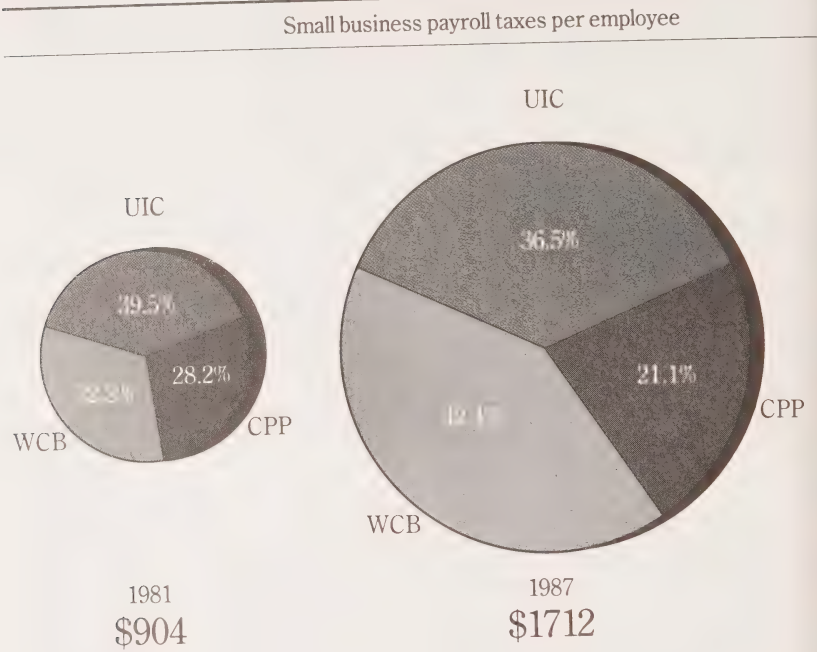


Table 5.6<sup>12</sup> *The Payroll Tax Load, 1981-1987 (3)*

Payroll tax	Average annual increase 1981-87*	As a % of payroll 1981	As a % of payroll 1987*
	%	%	%
Unemployment Insurance	9.8	2.4	3.0
Canada Pension Plan	6.0	1.7	1.7
Workers' Compensation	16.4	1.9	3.5
<b>Total</b>	<b>11.2</b>	<b>6.0</b>	<b>8.2</b>

\*Actual costs for 1981-85; estimated costs for 1986 and 1987.

<sup>11</sup>*Ibid.*

<sup>12</sup>*Ibid.*



## Tax Reform

Tax reform will change a lot of things in business, but it won't make it any simpler. The shift away from income tax to consumption tax is generally applauded — provided the introduction of a national sales tax goes ahead as planned and within the guidelines generally agreed upon by the government and the business community.

For corporations, the general intent of the federal white paper on tax reform, released in June of 1987, is to raise federal tax rates slightly from 19.9% to 21.1%, but an exception will be made for small businesses. The small-business rate will drop to 12% from 15%, but other changes in the tax regime will increase tax payable. The net effect will be an average tax rate of 13.5% before and after tax reform. Most small businesses have some income which doesn't come under the 200,000 limit of annual income that qualifies for the special small-business rate, so they pay at higher rates on the excess, raising the overall level of tax to 13.5%.

The small business community is satisfied with this approach, though manufacturing firms will be hurt. Manufacturers currently enjoy a special reduction in tax rates of five percentage points, which they will now lose — along with tighter provisions for Investment Tax credits and Capital Cost Allowances.

For manufacturers, the combined federal/provincial tax rate after tax reform will be slightly lower than in the U.S., but general corporate rates will be 1% to 7% higher than U.S. rates.

Some small businesses may incur extra administrative costs of about \$850 a year owing to the new requirement that payroll source deductions be remitted to the federal government weekly by firms with monthly remittances of more than \$15,000. Raising the monthly remittance floor to \$50,000 would alleviate the burden on small firms.

There is also some concern that the broad new anti-tax-avoidance provisions inject an element of uncertainty into business planning. The government has suggested a new "business purpose" test and a "step analysis test" that would allow Revenue Canada to look at each step of a business transaction to see if it has any useful business purpose other than tax avoidance.

As regards personal taxation, the intent of the white paper is to equalize the tax treatment between salary or bonus, dividends and capital gains.

Two important measures on capital gains tax affect small businesses. Capital gains up to \$100,000 are currently exempted from capital gains tax. This limit was supposed to rise to \$500,000 but tax

reform will cap the exemption at its current limit for everyone except farmers and small businesses who will be allowed up to \$500,000 of capital gains tax-free from 1988. Against that, the calculation of taxable capital gains will be changed so that two-thirds of the actual gain will be included in income in 1988 and three-quarters in 1990.

The dividend tax credit has been reduced to reflect the lower corporate tax rate. For a taxpayer in the top tax bracket and living in a province with a personal tax rate of 50% of the federal tax, the new treatment would make income from salaries or dividends taxable at the identical rate. However, once the new provisions for capital gains tax have been implemented, capital gains in excess of the exemption will be taxed more highly than dividends. It is suggested that lowering the inclusion rate for capital gains to 70% from 75% would equalize the tax treatment between dividends and non-exempt capital gains.

As regards deductions from corporate income for tax purposes, there is not great concern about the 80% limit on expenditures on meals and entertainment, which is regarded as reasonable. The new limitations on car expenses, however, are generally felt to be excessively stringent.

Under the new rules, a person will have to prove a company car is used 90% for business before being allowed to deduct car expenses on roughly the same basis as is currently allowed. Below 90%, the deductible amount falls to 20% of the expenses (and allowable expenses have been trimmed, too). This may prove difficult in terms of record-keeping — and is probably unfair. In particular, the limits on the Capital Cost Allowance for company cars used less than 90% for business does not reflect fairly the greater wear and tear on them, which raises the cost of a lease and reduces the resale value of a purchased car. There is no great argument with the limit of \$20,000 on the cost of a car for the purposes of calculating the Capital Cost Allowance.

Investment Tax Credits are being reduced and the amount that can be deducted is limited to only half of the total tax bill. Small businesses are given a break here, however. They can deduct the full credit up to the maximum tax on \$200,000 of income (*i.e.* \$24,000) plus half of the excess. Several items under the Capital Cost Allowance provision have also been reduced, most notably the fast write-off for manufacturing and processing equipment, which will no longer be calculated on the basis of a three-year straight-line write-off, but on a 25% declining balance.

The most significant element in this round of tax reform is the proposal for a National Sales Tax or a Business Transfer Tax. The latter would be a simplified version of the Value Added Tax so popular in



Europe. A model<sup>13</sup> that demonstrates the impact on small business of the BTT shows that profits are likely to be severely affected for firms that are unable to pass along the extra charge for the tax to their customers.

An example of the impact of a 7% BTT was calculated for an incorporated retail florist with annual sales of \$250,000:

**Table 5.7<sup>14</sup>** *The Impact of the BTT on the Bottom Line*

Projected net income after taxes without the BTT and with the BTT assuming differing ability to pass on the tax to the customer			
	Current system	With BTT (absorbed) *	With BTT (passed on) *
	\$	\$	\$
Sales	250,588	250,588	268,129
Cost of goods sold	118,778	127,092	127,092
Gross Profit	131,810	123,496	141,037
Expenses			
Wages	63,900	63,900	63,900
Benefits	2,506	2,506	2,506
Rent	10,525	11,262	11,262
Depreciation	3,759	3,759	3,759
Interest	4,761	4,761	4,761
Taxes (bus. & prop.)	3,007	3,007	3,007
Other	37,087	39,683	39,683
Variable expenses	125,545	128,878	128,878
Net income	6,265	(5,382)	12,159
Margin subject to BTT	—	72,551	90,092
BTT	—	4,746	5,894
Net income	6,265	(10,128)	6,265
Federal tax	775	0	775
Provincial tax	726	100	726
<b>Net income after taxes</b>	<b>4,764</b>	<b>(10,228)</b>	<b>4,764</b>

The calculations assume that the BTT is fully absorbed by the seller in the first case and that the BTT is passed on in full to the customer in the second. The sales figures are adjusted accordingly.

Source: "Business Transfer Tax: Modelling the Impact on Small Firms". 1987. Prepared for the Small Business Branch, Ministry of Industry, Trade & Technology, by Edith McBoyle, Lynda Goy and Linda Ganong.

A potential problem for the BTT is that, since there's no guarantee a firm can pass on the BTT to its customers, the tax may hit harder at labour-intensive firms.

The critical concerns regarding consumption taxation for the small-business community are: that the tax base be harmonized between the two levels of government, that the rate be the same on all taxable goods and services within a province, and that exemptions from the tax base be held to a minimum. The small business community has a strong preference for a single federal/provincial sales tax administration.

Studies indicate that a federal rate of 4.4% on a broadened base with no exemptions would be revenue neutral.

# 6

## Financing

This country's financial markets are as sophisticated as any in the world. That means big and medium-sized businesses enjoy access to a diversified and dynamic capital market. The same cannot always be said of small businesses. Small loans and investments that require anything more than routine administration are unlikely to be profitable for institutional lenders and investors. The profit margins are just too thin.

The chartered banks continue to be the major players in financing small businesses, but slimmer margins are forcing them to streamline their lending procedures and tighten up their loan portfolios in an effort to shed the poorer risks. The better credit risks — particularly the solid firms that aren't seeking dramatic growth rates — can still obtain money relatively easily, but the firms that present a greater risk to investors and lenders are finding it tougher to get financing.

Entrepreneurs starting new firms continue to fund their equity requirements primarily out of personal savings, augmented by investments from friends and relatives. And they continue to be underfinanced. (The major exception to this rule are the kinds of firms profiled in Chapter 4 — successful companies that aim for rapid growth from the beginning.)

Governments and their agencies have therefore been trying to find ways to alleviate the situation, so that owner/managers of young companies can spend more time on their businesses, and less time raising financing. It has been difficult for governments to make the transition from dealing with nine-figure investments that create hundreds of jobs each to creating an environment that suits startups with an average investment of \$30,000. But there are signs of progress. The trend is to downplay grants. Equity investments are recognized as being important because most small businesses are too highly leveraged. And, to protect themselves from fraud in situations where there are just too many investments to monitor properly, governments are insisting that there be some private-sector involvement.

### Equity Financing

#### *The Informal Risk-Capital Market*

The equity in most small startups still comes from the entrepreneur's personal savings and the "business angels" who invest in people they

believe in. A recent study<sup>1</sup> has made an important contribution toward understanding these angels in a specialized area, the high-technology industry in the Ottawa-Carleton area. The study interviewed in depth 25 private investors and 23 entrepreneurs.

The investors had committed a total of \$17 million of risk capital in 156 investments, for an average investment of \$109,000. All but two of them had been previously involved with top management in a startup. They had rejected, on average, four out of every five proposals they saw. The most common reasons for rejecting deals were lack of confidence in the management (80%), followed by low market potential (50%) and unfamiliar technology (40%). Other important reasons for not closing deals were a poor return relative to the risk and a poor business plan. Too high a price for shares in the company was cited as a reason for rejection in only 12% of the cases. These investors were not generally in search of control. Only 14% had more than 25% of the voting shares in the companies in which they invested. But they had the flexibility to become involved, if necessary — 85% of their investments were within 50 miles of their homes or offices. On average, they expected to liquidate their investments (usually by going public) after five years, although some were prepared to wait as long as 15 years.

Most interesting of all, these investors rejected the usual rule of thumb in the venture capital industry that, out of every 10 investments, two are winners, two are losers and six are “walking wounded”. Instead the private investors expected 2.7 to be winners, 2.9 to be losers and 4.4 to be middling. The expected net annual return on their portfolio of startup investments was 32%.

All but one of the entrepreneurs had annual sales of less than \$10 million and one had sales of \$10-\$20 million. Half of the entrepreneurs had growth rates of 10%-50% and a third had growth rates of more than 50%. The average firm was five years old and employed 29 people.

The most important source of risk capital was their own resources (85%), followed by informal investors (angels) and friends and relatives both cited by half the entrepreneurs. Only 22% cited venture capitalists and government as a source of funds. Predictably, these entrepreneurs usually suffer from a shortage of funds and most resorted to using short term debt financing for long-term needs, even though they almost all recognized that as being undesirable. On average they estimated they spent one-sixth of their time looking for funds — and 17% of them spent at least 30% of their time chasing down money.

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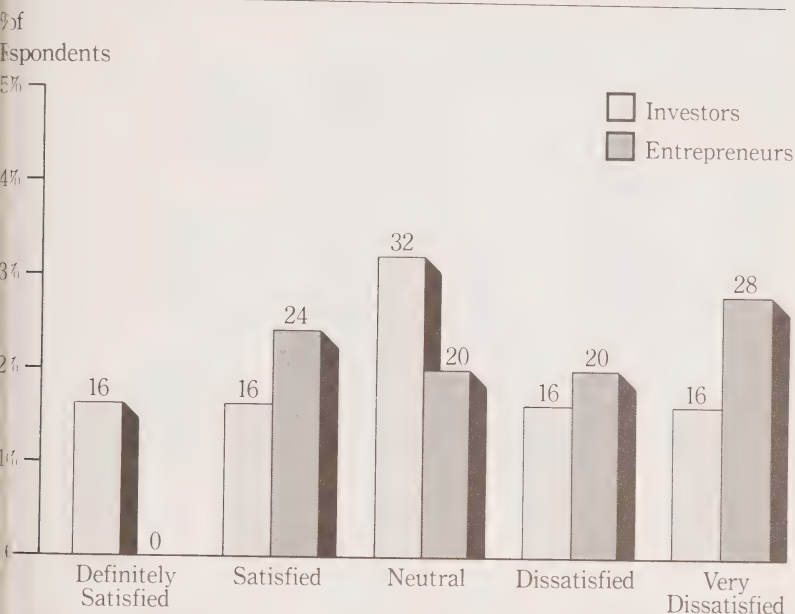
<sup>1</sup>Source: Allan Riding and Dominique Short, Carleton University, in “*Some Investors and Entrepreneurs’ Perspectives on the Informal Market for Risk Capital*”. 1987.

The entrepreneurs feel, as the next two charts illustrate, that the network of potential investors is quite inadequate. The investors are content.

Chart 6.1<sup>2</sup>

### *Views on the Risk Capital Market*

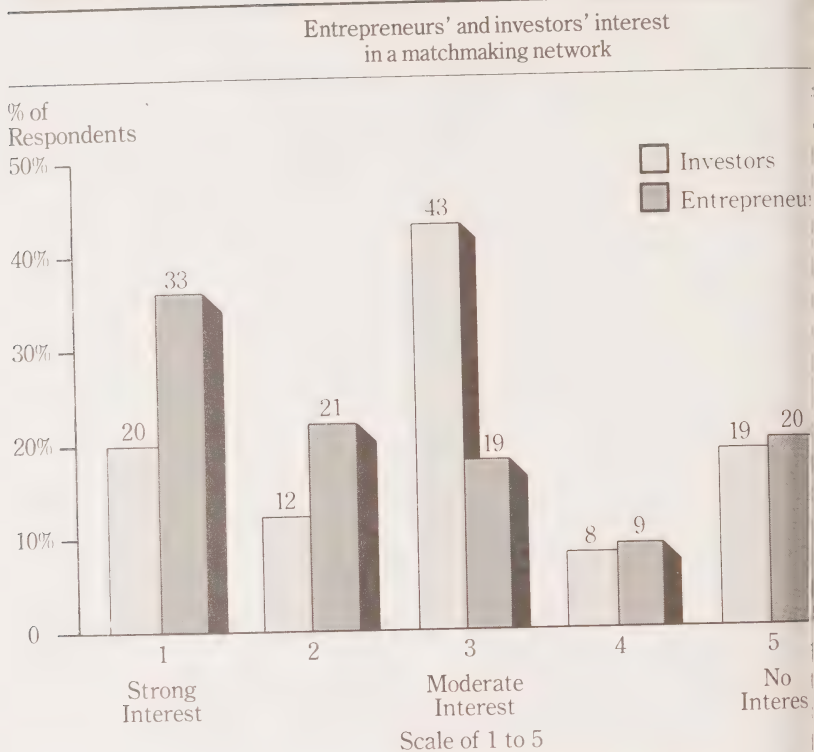
Entrepreneurs' and investors' levels of satisfaction with the informal risk capital market



The matchmaking networks in Canada appear to be significantly more developed than in the U.S., according to a number of studies. The challenge is to build on the isolated networks such as that in Ottawa-Carleton to develop a more efficient market in informal risk capital. The study of the Ottawa-Carleton network found that investors prefer a personal network, while entrepreneurs prefer to go national in their search. A non-profit, non-government organization was strongly preferred by both investors and entrepreneurs. Investors said they'd be interested in joining such an organization if the fee was \$100, while entrepreneurs would gladly shell out \$350.

The Ontario Chamber of Commerce, in concert with the Ontario government, Price Waterhouse and Xerox, is attempting to meet this need. With seed money contributed by the Ontario government, the



Chart 6.2<sup>3</sup>*Interest in a Matchmaking Network*

Chamber established COIN (Computerized Ontario Investment Network), which started operations in November of 1986.

COIN is a non-profit service operated through the Chamber's 160 branches across the province and through the foreign trade offices of the Ontario government. It carries computerized files of investors and entrepreneurs, the former paying \$250 for one year's listing, the latter \$150. To be listed, entrepreneurs or investors fill in a form outlining their operations and preferences.

The computer then matches, very quickly, the profiles of the two sides of a potential deal, and produces a list of matches and near-matches. The investors are then sent profiles of the entrepreneurs who meet their needs, and, if they like what they see, they are sent an executive summary of the entrepreneur's business plan. If it still looks good, the two parties are asked if they want to reveal their names, so

<sup>3</sup>*Ibid.*



at a meeting can be arranged. Three-quarters of the investors are formal investors, the market that COIN was intended to penetrate. The balance are venture capital companies. The investors are each interested in an average of five of the following categories, listed in order of popularity:

**Table 6.1<sup>4</sup>** *What Business Angels Like to Invest In*

Sector	Investor interest
Manufacturing — industrial and commercial products	77%
Manufacturing — consumer products	60
Manufacturing — high tech products	44
Wholesale trade	40
Service — non-technology related	39
Real estate/construction	35
Service — technology related	32
Communications/publishing	30
Financial services/insurance	25
Medical/health care	25
Recreation/tourism	25
Rail trade	25
Energy/natural resources	16
Computer software	12
Transportation	12
Education/training	11
Agriculture/fishing/forestry	4

The Federal Business Development Bank has been running a comparable matchmaking service for the past few years. It charges \$250 a year's listing to both investors and entrepreneurs seeking capital. It too, has a computerized data base, and it also publishes lists of opportunities and investors in each issue of its quarterly tabloid paper, *Profits*. This data base is available in 77 FBDB offices in Canada and 67 general offices in other countries.

In the year ended March, 1987, Financial Matchmaking had on file 381 investors and 407 entrepreneurs and the service completed 38 matches involving a total investment of \$5.9 million. Since the service started, it has consummated 100 matches, involving more than \$10 million. The sizes of the deals range from \$20,000 to \$1.6 million.

Source: COIN, the Computerized Ontario Investment Network.

FBDB staff will sit in on the negotiations and help structure the deal. The bank collects a fee of 5% of the investment or a minimum of \$2,500 if the deal closes. Bank officials do not see this service growing fast as it takes an enormous amount of effort to complete each match.

Last year the government announced it would introduce legislation to encourage Employee Share Ownership Plans. This legislation has not been tabled yet, but it envisages a subsidy for the establishment of the plan and a tax incentive for investing employees. The maximum investment proposed is \$2,000 a year per employee up to 10% of the total shares. There are no special provisions for small firms.

### *The Formal Venture Capital Market*

In the formal venture capital industry, the capital under management rose to \$1.5 billion in 1986, up 23% from the previous year, according to a recent study.<sup>5</sup> This still compares poorly to the U.S. where the capital stock in the venture capital firms is \$24.1 billion. Furthermore, the Canadian companies tend to favour investing at a later stage in a firm's growth than in the U.S. — only a quarter of Canadian investments in 1986 were at an early stage.

Venture capital investors come from three main disciplines — private, independent investors who control 41% of the industry's financial resources, Crown agencies (23%) and venture capital arms of large corporations looking for diversification opportunities (36%). Private investors are assuming a more dominant role in the industry, having raised their share of the available capital from 36% in 1985. (In the U.S., private investors account for three-quarters of the available funds.)

Despite the increase in available funds, the amount committed in 1986, \$206 million, was 16% lower than in 1985. Ontario took 31% of the funds, up from 24% the previous year. The average investment was \$844,000. Private investors are shying away from early-stage investments, so their average investments are increasing. In 1986, they averaged \$712,000 versus \$472,000 in 1985. Much of this is caused by the growing presence of pension funds, which now account for about a half of all the resources of the private investors. In 1986, the pension funds committed two-thirds of the funds versus slightly more than one-third in 1985.

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<sup>5</sup>Source: Venture Economics Canada. *CVC, Canadian Venture Capital*, May, 1987. Editor Mary Macdonald.

Consumer-related firms took over top spot as targets for investment. Computer-related firms, which have long been the darlings of the venture capitalists, fell to 27% of the total in 1986 from 40% in 1984. The next two most popular were industrial products and genetic engineering, while medical products tripled to take the fifth spot.

Foreign investments apparently lost some of their allure in 1986 as the share that went to Canadian companies rose to 86% in 1986 from 70% in 1985 and 60% in 1984.

### *Government-Sponsored Venture Capital*

The venture capitalists have left an equity gap at the smaller end of the market — from \$50,000 to \$500,000 — and this has drawn governments to the action. Most provinces now have programs in place to encourage equity investments in small firms, through tax incentives for private investors or through direct mandates as investors.

In Ontario, the main tools for this purpose are the SBDCs (Small Business Development Corporations) and Innovation Ontario Corporation. However, other government agencies, such as the Ontario Centre for Resource Machinery Technology in Sudbury, do engage in important venture capital activities. In a recent study<sup>6</sup> of these programs in seven provinces, it was found that these corporations do fill an important gap in the market:

- Most of the firms which have received funds from these companies have raised less than \$250,000 to date. The median investment in the study was \$220,000.
- A remarkably healthy 37% of the funds went to startups or seed money, compared to 26% with formal venture capital.
- Without the government programs, the investment would not have gone ahead in more than half the cases (ranging from 91% in the Atlantic provinces to 39% in Ontario). Virtually all the private-sector funding was obtained from individual investors — and their median investment was \$50,000.

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<sup>6</sup> Steven Globerman and Larry Olson, "Government-sponsored venture capital programs; analysis and evaluation". ICSB, 1987.

*Small Business Development Corporations*

The SBDC program has dispensed \$135 million in grants and tax credits from the time it was started in 1979 to the end of March 1987. The details of the disbursements and the accompanying investments since the program started are shown in Table 6.2:

**Table 6.2<sup>7</sup>***SBDC Investments*

Number of applications	1,022
Number of registrations	918
SBDCs revoked or withdrawn	311
Net registrations	607
Number of individual investors	11,234
Number of corporate investors	311
Number of grants/tax credits approved	15,700
Amount of grants/tax credits approved	\$134,642,060
Grants/tax credits revoked or withdrawn	\$ 6,906,820
Net grants/tax credits	\$127,735,230
Number of investments	1,850
Amount of investments	\$359,510,090
Number of new small firms invested in	82

The size of the individual grants or tax credits has been quite small. Three-quarters of them were less than \$5,000 and 1.4% were for more than \$100,000. However, the average total investment made per grant was \$194,000.

The funds have gone mainly to manufacturing firms which accounted for two-thirds of the total of \$360 million invested by all parties under the SBDC program. Tourism was next highest with just more than a quarter. Research and development, computer software, book publishing and services to mining all took less than 5%. There were no investments in services to forestry industries.

The program has been widely considered to be a success, having improved the access of small firms to equity financing. However, the SBDCs have not turned into small venture capital pools, tapping the informal investor network. Often the entrepreneur and the investor or investors found each other without the help of the SBDCs, so the SBD acted less as a tool to bring investors and entrepreneurs together, more as a powerful incentive to close the deal once the two parties had found each other.

<sup>7</sup>Source: Ontario Ministry of Revenue.



Utilization of the program has slowed down in the past couple of years, despite the rapid increase in new business formations (see Chapter 1). Compared to the year ending March 31, 1985, the grants approved under the program in 1987 were down 28% and the total investments in businesses using SBDCs were down 38%.

Furthermore, earlier chapters have shown that service industries are the main driving force in new venture formation and job creation, so the exclusion of these areas from the SBDC program was working against the prevailing trends. This shortcoming was significantly reduced in the 1987 budget, which extended eligibility to firms providing services to business.

### *Innovation Ontario Corporation*

Innovation Ontario Corporation (IOC) was created in July, 1986, to provide seed money to startups in high-technology enterprises. Working closely with the private sector, it also provides advice on financing, marketing and product development.

It's estimated that fledgling high-tech companies in Canada have less than one-sixth the supply of venture capital funds per capita than comparable firms in the U.S. The venture capital industry in Canada is also generally not interested in investing less than \$500,000 in a single venture. The management time required to monitor an investment of \$250,000 is much the same as for \$1 million, so investments of less than \$500,000 are often considered by the industry to be unprofitable. IOC would therefore fill an important gap in the capital market.

The IOC provides seed financing up to a maximum of \$250,000 to help its clients grow to the stage where venture capital and institutional investors are able to finance them. The corporation also works closely with its clients to attract private-sector investors. To July, 1987, IOC had approved 54 investments totalling almost \$6 million, to which private-sector investors had added another \$12 million. Half the investments — and three-quarters of the funds disbursed — were equity. The remainder were royalty agreements. Software companies were the most popular, followed by electronic products, engineering, medical and biotechnology and agricultural technologies.

IOC received more than 400 proposals in eight months. In cases where a proposal is declined, the corporation's staff provide a detailed view of the project, with the aim of assisting the enterprise in further fundraising efforts. The most common reasons for declining applications are lack of growth potential, inadequate information, financing requirements beyond the scope of IOC and weaknesses in management.

Once a company is established and has attracted other investors, IOC seeks to divest its investments under an agreed formula that offers its clients an opportunity to repurchase IOC's investment at a fixed rate, usually within three years.

### *FBDB's Venture Capital Division*

The FBDB is now a major player in venture capital markets. In the fiscal year ending in March, 1987, it committed to 19 investments for a total of \$20 million. The previous year, the bank made 22 investments for a total of \$12.5 million. The average investment in 1987 was much larger than in 1986 because there were four that were very large, including two in venture capital companies in which FBDB holds shares. Without these large investments, the average equity investment was \$567,000. There are now 46 investments in the bank's venture capital portfolio, worth \$43 million at cost. The projects in which the bank invested had a total investment of almost six times the bank's investment.

### *Retirement Fund Venture Capital*

The federal government has passed legislation encouraging pension funds and owners of Registered Retirement Savings Plans to invest in small businesses. For pension plans, the legislation allows fund managers to increase their investments outside Canada above the normal limit of 10% of the total fund if they invest in small businesses. For each dollar invested in a small business, the foreign investment ceiling would be raised \$3. For RRSPs, the legislation allows individuals to invest up to 50% of their RRSP in a small business not owned by a family member, provided the shareholding doesn't exceed a designated limit.

While the intent of the legislation has been applauded, the regulations designed to prevent abuse are so complex that there has been negligible interest in the RRSP program and the pension fund program has started to elicit interest only since the regulations governing it were amended.

A particularly serious problem for both is that Revenue Canada can retroactively rescind certification of an investment if the target company ceases to be qualified — even long after the investment has been made. A fund that invested in several companies would then risk having the entire fund disallowed, with serious tax consequences, if one of the investments slipped into becoming disqualified. This has been solved for the pension funds by allowing investments to be made under a qualified limited partnership, which permits the credit for foreign investments to



be taken as the small-business investments are made, rather than taking the credit for the fund when it is first assembled. For RRSPs, the problem has not been solved and trust companies are generally extremely reluctant to administer them because they would have to audit them every year.

In a recent study<sup>8</sup> of attitudes of investors and target companies in Ontario, the investors indicated they would strongly prefer to invest their RRSPs in companies controlled by family. Furthermore, only 12% of the potential investors surveyed would invest more than \$50,000 and most wanted to liquidate their investments within five years. Not surprisingly, public awareness of the program is extremely low.

Since the regulations were amended for pension plans, at least two major venture-capital funds (both more than \$50 million) have been formed to tap the market for small-business investments. It's likely that they and others will bring a significant infusion of capital into the venture capital market.

## Debt Financing

Canadian entrepreneurs are less willing to give up equity in their businesses than their American counterparts. They are therefore usually more highly leveraged with debt. The price of that reliance on debt was brought home forcefully to Canadian small businesses when interest rates went through the roof in the early 1980s.

That experience has changed the lending institutions as much as it has changed the borrowers. All the major lenders admit to having tightened the administration of their loan portfolios over the past five years. All are competing more aggressively for the good accounts. All are trying to get out of shaky loans. For the less well-secured small firms, this has meant relentless pressure to pay down bank loans.

Despite lower interest rates, which have improved small firms' interest-coverage ratios, there are still problems in the availability of loans at the low end of the market. This has forced greater government intervention through innovative programs like New Ventures.

Table 6.3 shows how lending has increased by the major lenders in Ontario. As a percentage of national loans, Ontario is taking about 20% of the chartered bank loans, 30% of SBLA loans and 25% of FBDB loans.

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Source: G.G. Cunningham & Associates, "Study of Investment of Self-Directed RRSP Funds in Small Business", prepared for Small Business Advocacy, Small Business Branch, Ministry of Industry, Trade & Technology. 1987.

**Table 6.3<sup>a</sup>** *Who Lent Money in Ontario*

Loans less than \$500,000 made to Ontario businesses								
Year	Chartered Banks		SBLA		FBDB		ODC	
	#	\$million	#	\$million	#	\$million	#	\$million
1986/87	n/a	n/a	n/a	n/a	1,374	187	n/a	n/a
1985/86	n/a	22,455	6,126	209	1,038	121	1,085	126
1984/85	n/a	19,803	7,827	242	606	65	943	121
1983/84	n/a	19,424	5,433	152	422	43	561	78

### *Chartered Banks*

The environment has changed radically for the chartered banks in the past five years. Quite apart from increased competition from Schedule B banks, international financings and trust companies, they have had to face a volatile economic environment that has changed the way they do business.

Banks make their profits on the spread between the cost of money (the interest they pay on deposits and other funds raised for the purpose of making loans) and the price of money (the interest rate charged on their loans). The advent of daily interest accounts and more sophisticated cash management by businesses has raised the cost of money for the banks. Competition has made it difficult for them to raise the price as much as they would like. According to the Canadian Bankers' Association, the spread for chartered banks has fallen since the mid-1970s, from 3.72% to about 3.25% during 1984-86.

These margins have not been enough to support the increased cost of doing business. To make matters worse, provisions for loan losses on Third-World loans as well as on loans to large, previously unassailable corporations like Dome Petroleum — not to mention an increased failure rate in small businesses since the recession of 1981-82 — have added pressure on profit margins.

The banks have accordingly put the profitability of their loans to small firms under a microscope. They are finding that the smallest ones are not profitable at rates of less than prime plus 2%. There is still money to be made in the personal accounts of owner/managers and it is

<sup>a</sup>Source: Small Business Advocacy, compiled from *Bank of Canada Annual Review*, *Federal Business Development Bank Annual Report*, *Small Business Loans Act Annual Report* and Ontario Development Corporation.

Outstanding demand and term loans by the  
chartered banks in Canadian funds at the end of each year

Outstanding loans under authorized limits of:

End of period	Less than \$500,000	\$500,000 to \$1 million	\$1-\$5 million	\$5-\$25 million	More than \$25 million	Total
(\$millions)						
1986	22,364	5,256	13,888	14,874	15,401	71,786
1985	22,183	4,800	13,023	14,149	21,089	75,243
1984	21,365	4,814	12,574	13,727	22,292	74,773
1983	21,683	4,661	12,264	13,134	18,967	70,709
1982	20,517	5,023	13,113	14,596	25,765	79,015
1981	21,107	5,388	13,228	14,442	24,108	78,276
Less than \$1 million						
1980	19,356		11,175		24,854	55,385
1979	17,176		10,026		17,665	44,866
1978	15,163		7,716		11,561	34,441
1977	13,478		6,722		11,125	31,323

<sup>10</sup>Source: Bank of Canada Review.

still a good business decision to lend to smaller businesses in the expectation that many of them will give the banks more business as they become bigger. But the banks are questioning the way they treat small firms. At least one bank has decided to switch most of its smaller business clients, those with loans of less than \$75,000, out of commercial categories into personal categories. All the banks are streamlining procedures. Many just won't make a small loan unless the borrower offers sufficient personal collateral. Table 6.4 shows how the smaller businesses have increased their loans outstanding with the Canadian banks. But the increase is quite a bit less than the increase in their sales and employment over the same period, so it would appear that, on average, they have reduced their recourse to bank loans. But nothing like the largest firms. The businesses with loans of more than \$25 million paid down their bank loans in dramatic fashion in 1986, taking advantage of a buoyant stock market to repair their debt-equity ratios. Their outstanding loans are now running at 19% of the authorized limits, compared to 38% in 1982. Small firms are running at two-thirds of the authorized limit, little changed from 1982.

Loans of less than \$500,000 now account for 31% of the loans outstanding versus 26% in 1982.

### *The New Ventures Program*

The New Ventures Program, introduced in September, 1986, is designed to encourage private-sector lenders to play a more active role in small business startups. The program offers loan guarantees to a maximum of \$15,000 to new entrepreneurs who are willing to risk an equal amount, and who undertake to hire at least one full-time employee.

The loan can bear a floating rate of interest of prime plus 1% or a fixed rate negotiated between the borrower and the lender. Interest only is paid in the first year. The borrower and lender arrange a schedule for the repayment of interest and principal over the following four years.

The program is administered by nine participating lenders — the six biggest chartered banks, National Trust, the Credit Union Central of Ontario and L'Alliance des Caisses Populaires. The applicants must provide a business plan that meets requirements specified by the Ontario Development Corporation. A registration fee of \$150, payable to the lending institution, is deducted from the loan.

The New Ventures program also fosters the participation of women in entrepreneurship. A target of 25% women borrowers has been set for the first year, rising to 30% by the third year. Also, 20% has been set aside for loans to entrepreneurs in the north and east. In these regions,

the cash investment by the entrepreneur is only 50% of the loan guarantee, compared to 100% in the rest of the province.

In its first year of operation, the participating lenders approved 1,142 applications for a total of \$41.6 million in guaranteed loans. About 8% of the applications were declined. As might have been expected, the program started slowly, as Table 6.5 shows.

**Table 6.5<sup>11</sup>** *Applications for New Ventures Program*

Month	Number of applications processed per working day
<b>1986</b>	
September	3.0
October	8.4
November	11.3
December	9.2
<b>1987</b>	
January	10.4
February	13.0
March	17.0
April	20.6
May	16.4
June	15.5
July	14.3
August	14.5

The decline in applications processed over the summer is attributed to normal seasonal variations in loan activity as well as to the expiry of an advertising campaign in the early part of the year. To achieve the target of 15,000 loans a year, 20 applications will have to be processed per working day.

Women accounted for 26% of the borrowers, loans to the north and the east for 29% of the total funds advanced.

It is too early to gauge the extent of loan losses from this program, but, by the end of July, the government had paid out \$251,000 to the participating lenders in loan defaults and estimated a contingent liability of \$7.3 million for 1986-87.

Source: New Ventures Program, Ontario Development Corporation.



### *The Development Corporations*

The Ontario Development Corporation (ODC) was established in 1966 to provide financial assistance to small- and medium-sized secondary manufacturing industries and tourist operations. With its related corporations, the Northern Ontario Development Corporation (NODC) and the Eastern Ontario Development Corporation (EODC), it fosters job creation, high technology, exports, community and regional development and industrial diversification through the provision of loans and loan guarantees at levels of risk higher than those the private sector will normally assume.

The corporations also manage industrial parks and provide advisory, fiduciary and management services to various ministries on investment management and the delivery of sectoral and regional programs and capital projects. In 1986, Innovation Ontario Corporation and the New Ventures program were added to ODC's responsibilities.

Finally, the corporations provide financial advisory services to businesses, handling about 11,000 enquiries in 1986-87. About half are given basic advice on government programs and private-sector lending, another 25% are given specific advice on business financing, 15% are given detailed advice on preparing financial statements and business plans and 10% submit applications for ODC funding. With the New Ventures program and Innovation Ontario, enquiries are expected to increase to 24,000 a year.

The corporations now have an authorized asset base of \$1.2 billion, with loans outstanding of \$831 million. The loans and loan guarantees to small and medium-sized businesses, which account for much of the activity of the corporations, now stand at \$219 million (\$419 million approved).

Almost three-quarters of the outstanding loans are agency investments, managed by the corporations on behalf of other government agencies. About a quarter of the agency loans are to small businesses. The balance, representing about half the total portfolio, are capital projects, including the Ontario government's \$50-million investment in American Motors Corp.'s new plant, the government's shares in Allelix and Varity and the \$46-million portfolio of investments from the IDEA Corporation, wound up in June last year.

Agency activities have been the major source of growth in recent years. This is expected to continue through the Northern Ontario Heritage Fund and the Eastern Ontario Community Economic Development Program.

The development corporations use several types of loan



techniques. In 1986-87, the total lending was \$154.8 million, in projects that generated total investments of more than \$400 million. The loans in 1986-87 were distributed as follows:

**Table 6.6<sup>12</sup>** *How the ODC Lends its Money*

Loans advanced	Share of total	Type of loan or guarantee
\$ million	%	
15.0	10	Term loans
36.7	24	Incentive term loans (temporary concessions on principal repayment or interest, given to startups)
15.4	10	Loan guarantees
30.6	20	Incentive loan guarantees (including interest subsidies tied to cash-flow requirements)
2.3	1	Interest subsidy
28.5	18	Export Support Loan Program (which buys up to 90% of foreign receivables from exporters)
3.0	2	Forgivable loans, mainly on an agency basis
19.9	13	New Ventures Program
3.3	2	Innovation Ontario

The average size of the 849 loans made under traditional programs (excluding New Ventures and Innovation Ontario) was \$155,000 in 1986-87. However, more than a third of the loans were for loans of less than \$50,000, and almost 60% were for loans of less than \$100,000. In 1986, firms with 10 employees or less took 80% of the loans, accounting for 46% of the dollar amounts (this will increase significantly with the New Ventures program in 1987).

The level of risk undertaken by the development corporations in these many small loans was somewhat higher than other lenders in the market. The loan loss ratio is running at 3%-4% a year. With the mass-market New Ventures Program, this ratio will rise in the next few years. For comparison, chartered banks normally support a loan loss ratio of about 1%, the Federal Business Development Bank 1.5%.

In common with all other lenders, the corporations intend to tighten their lending procedures, which will lead to tougher assessments of risks. The ODC also is introducing the Strategic Modernization Program to foster the development of internationally-competitive industries.

<sup>12</sup> Source: Ontario Development Corporation.

The loans are weighted toward eastern and northern Ontario. Loans per capita in the three regions amounted to \$32 in the north, \$17 in the east and \$13 in the south. This disparity is expected to increase with the opening of two new branches in the north and one in the east, bringing the total to 14, including five in the north and four in the east.

The development corporations have embarked on a major revitalization program, which includes three central themes:

- The three main operating functions (loan applications, disbursements and administration) will be reorganized on a regional basis to streamline operations and improve loan accountability.
- The loan accounting procedures and operations will be modernized to increase productivity and improve the monitoring of the effectiveness of lending activities.
- A human resources development strategy will upgrade skills, improve services to business and provide staff with greater career development opportunities.

### *SBLA Loan Guarantees*

The biggest loan-guarantee program in the country is the Business Improvement Loan Guarantee Program under the SBLA (Small Business Loans Act). Loans to businesses with annual revenues of less than \$2 million are 85% guaranteed by the federal government. The maximum loan is \$100,000 and the interest rate on the loan is prime plus 1%. In the year ending March 31, 1985, the federal government guaranteed loans totalling more than \$1 billion, up 45% from the previous year. However, in 1986, loans advanced under the act declined by a third in number and by 27% in dollar amounts. The average size of loans rose to \$31,273 in 1986 from \$28,959 the previous year.

The chartered banks administer the program and they found that they could not make a profit at the designated interest rate of prime plus 1% on SBLA loans. Worse, the banks have had great difficulty in the past couple of years claiming losses under the guarantees because of inflexible interpretation of the new rules introduced in 1985. The administration of the SBLA program was adjusted at the end of June this year to correct some of the difficulties, but further changes may still have to be made, depending on the report of a task force appointed to study the program.

Ontario firms have made relatively little use of the SBLA program, having taken only 28% of the loans in 1986.

*Federal Business Development Bank*

After a severe retrenchment following the 1981-82 recession, the Federal Business Development Bank (FBDB) has started to lend aggressively in the past couple of years. In the year ending March 31, 1987, the FBDB authorized almost \$1 billion in loans and loan guarantees, up 29% from the previous year and up 182% from 1984. The bank's total loan portfolio now stands at \$2.1 billion. Ontario takes a disproportionately small share of FBDB loans — about 28% — although 38% of the bank's loans and loan guarantees to tourist operations were in Ontario in 1987.

The average size of FBDB loans has grown enormously in the past five years, reaching \$163,000 in fiscal 1987 versus \$108,000 in 1983. However, these figures are distorted by a few really large loans — 5% of the loans were for more than \$500,000 and they averaged \$1.1 million each. The median size of loans and loan guarantees in 1987 was \$79,000. Almost 60% were less than \$100,000.



# 7 Entrepreneurial Planning

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Entrepreneurs are no cheerleaders for strategic planning. But careful analysis of what they do, rather than what they say, reveals that most successful entrepreneurs are conscientious planners. They just don't like the word.

The reputation of strategic planning has been tarnished by the excesses of the mechanistic blueprints churned out by over-trained specialists, who never could quite relate to problems and opportunities in the trenches. Many large corporations took note some years ago, abandoned planning as a separate discipline, and then duly lost their way.

Successful entrepreneurs have generally kept the essence of the process. They may not practise every element of textbook strategic planning, but they perform enough of them that it can be said accurately that their actions are based on their planning.

Planning means different things to different people. In the course of extensive interviews with more than 100 entrepreneurs running profitable, high-growth Canadian companies, their attitudes toward planning were compared with what they actually do in the specific activities that together comprise the planning function.<sup>1</sup> Their businesses cover every major industry category. Three-quarters of them are founders, 19% bought into businesses and 6% inherited businesses. 90% are males.

Almost three-quarters of them have owned their principal business for 15 years or less, more than half for 10 years or less. A few are very large (more than \$1 billion in annual sales) and a few are very small, employing fewer than 10 people. Most (70%) are small or medium-sized, with annual sales between \$2 million-\$50 million. Average 1986 sales, excluding five very large companies, were \$27 million.

What distinguishes the concept these people have of planning from the conventional wisdom — nourished by reams of big-company plans written in stone and enforced like the law — is that plans for entrepreneurs are totally flexible. Many of the successful planners in this study affirm that the process of planning is more helpful than the result.

A detailed five-year plan does not preclude flexible responses, as long as the planner is prepared to throw it out of the window if necessary.

In essence, planning is deciding where a business should be at some

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source: Donald A. Rumball, "Entrepreneurial Planning — Strategic Opportunism". CSB, 1987.



point in the future and figuring out how to get there. It must be where the entrepreneur wants to be, otherwise it's just forecasting. It must also involve some stretching of the entrepreneur's potential, otherwise, why bother? Finally, planning is not the preparation of an annual budget and cash-flow forecast. Both of these are critical to the success of a venture but they are control mechanisms, not planning.

The essential point about planning, entrepreneur-style, is that it is based on the creation and recognition of opportunities. Entrepreneurs are by definition short of resources — if they had sufficient resources, they wouldn't have to be entrepreneurial. When they shoot for a goal, they do so without regard for the resources they currently control. This means that the methods by which they will achieve their plans often cannot be described, if only because the necessary resources, financial and human, cannot be known in advance.

There are six major steps in planning:

- Analysis of the firm's competitive situation. This covers, among other areas, market analyses, studies of changing customer needs, SWOT analyses (strengths, weaknesses, opportunities and threats), assessments of the firm's competitive position, its sources of competitive advantage, existing and potential competitors. It can best be summarized as strategic thinking.
- Identification of opportunities. Sometimes this is a deliberate plan, other times it's a question of an opportunity coming up for grabs. Either way, the opportunity must be recognized and seized.
- Establishing overall objectives. This includes identifying target market segments, developing a strategy to sustain the firm's competitive advantage, determining the overall direction, setting specific goals.
- Establishing a time frame.
- Action plans/allocation of resources. This includes the logistics of projects to get the business to there from here.
- Control and feedback. This is not part of the actual plan — it's more like implementation — but it's crucial if the plan is ever going to mean anything. It involves testing the assumptions on which the plan is based, monitoring events to compare them with the plan and, if necessary, changing the plan when it becomes apparent it's not going to work.

Entrepreneurs do, in fact, use all of these concepts, but they generally prefer not to express them in these terms.



The first one and the last two of these six steps are almost a way of life for most entrepreneurs. Many of them might not even include them in their concept of planning. The middle three — identifying opportunities, setting objectives and putting a time frame on them — elicit the most misunderstanding.

Identifying opportunities is what entrepreneurs do best. There appear to be two quite distinct perceptions of opportunity. Some believe that opportunities are created by their own skill, effort and good organization — that if they make up their mind to achieve certain goals, the opportunities will be there when they need them. Furthermore, they believe they won't have any trouble recognizing the opportunity because they will have prepared themselves so thoroughly. These people believe that success comes to people who create their own opportunities. They are not inflexible, however, as they have to move fast when the time is right. They are the **opportunity creators**.

Others believe that opportunities present themselves only briefly and must be exploited quickly, decisively, before they float away again. Often, these people create an environment in which business deals come to them and they pick and choose among them. They may also lie in wait for a specific opportunity for years. They are the **opportunity grabbers**.

Some find that they are a combination of the two, believing they create their own opportunities but recognizing that some opportunities just fall into their laps and they have to jump on them.

The entrepreneurs in this study are fairly evenly divided on this point, with 50% considering themselves to be opportunity creators, 41% opportunity grabbers, while the balance of 8% felt both apply to them. How they use these opportunities is another matter. Table 7.2 shows how their perception of opportunity compares with their approach to planning.

When it comes to establishing overall objectives, the entrepreneurs use four types of planning:

**Project planning.** They identify and plan, often rigourously, strategically important projects that represent a significant departure from their existing lines of business. The plan does not cover parts of the business that are not tied in to the project but it does offer a focus for the short-term and long-term decisions of the leading people in the business. Also, of course, the planned project usually defines, however subconsciously, the planned context of the entire business because of the steps that had to be taken to select the project in the first place.

But not everyone thinks of this as planning.

“I’m not one for long-term strategic planning — or even short-term. I’m not a believer in the theory of strategy. Once a year, we write down for our board what we’re going to do in the next year. We look at services we provide and the industry classification of our clients. In the last few years, we’ve tried to look at areas we’re not in, but should be. We’re incredibly unsuccessful in one area, so we asked some of our newer people to try. They couldn’t either. So now we’ve hired a consultant to tell us what we’re doing wrong.” — Chairman of a consulting firm in Toronto.

2. Goal setting. Some entrepreneurs plan by setting a specific, quantitative goal to shoot for. It may be annual sales or profit or annual growth rates in either. It may be number of employees or market share or asset base. The entrepreneurs usually don’t specify how they’re going to reach their goals — if they did, they’d be full-scale planners. Many of them remark how disappointing progress in one department is often balanced by unexpected progress in another. The value of the goals, however, is to provide a focus and a motivation for the key people in the business.

Goal setters tend to be the most aggressive entrepreneurs.

“I’m always making goals. I set a goal for each five-year segment of my life — personal and business. I write it down and put it away. It’s surprising how close you get. 40-50 are my prime years.” — President of a major pizza franchise in Toronto.

3. Setting a direction. This is the opposite of goal setting. Direction setters know where they’re going, sometimes in considerable detail. Their approach to planning is like the statement of overall objectives in a full-scale plan. It may be a philosophical framework or a general statement of intent. It is not wishy-washy.

“A plan is a broad direction. Five-year plans are meaningless. We do not write down our two-year plan — something invariably happens that injects a huge change in the second year. We only write down our 10-year plan.” — President of a major manufacturer of retail systems in Toronto.

4. Full-scale planners. These are the people who come closest to the popular image of planners, although their version of it is heavily

streamlined. They are unanimous in their view of the purpose of planning.

“Planning is the most important aspect of a plan. The process makes you take into account all of the elements of a business. Too often a company takes a plan and salutes it. Chances are it’s out of date by the time it’s printed.” — President until last year of a major Toronto rental store.

Says another, even more committed to planning:

“I’m stirring up and down all the time. I’m getting the involvement of the people who’ll be implementing it. . . It’s an iterative process. I give them the general direction, sometimes over two or three days, sometimes in a day, sometimes with a lot of documentation, sometimes without. And I ask them how far they can go in three years. It’s not a neat process.” — President of a service firm based in Toronto.

The entrepreneurs’ approach to the time frame within which their plans are made varies widely with the type of planning they do. A time frame is not critical to project planning — only 33% of the entrepreneurs who plan this way had a time frame to their plans. The ones who don’t have a time frame are usually planning projects that depend on the right conditions being created or found, so the timing of the project is not always controllable.

Three-quarters of the goal setters, on the other hand, have a time frame attached to their goal to give it some sense of urgency. Predictably, direction-setters don’t hang their hats on time frames, and full-scale planners almost all have a time frame.

Table 7.1 shows that more than half the successful entrepreneurs perform the full-scale planning function.

How Entrepreneurs Plan

Planning type	Distribution of entrepreneurs between planning types — written and unwritten — and the time frame they set for themselves			
	Distribution of entrepreneurs	% that have a time frame	Average time frame	% that are written
	%	%	years	%
Project plans	25	33	3.75	50
Goal setting	8	75	4.00	15
Direction setting	11	45	3.60	25
Full-scale plans	52	92	4.10	98
No plan at all	4	1	6.00	—
Average		67	4.00	65

Within each of these basic types of planning, there are two basic types:

**Opportunistic planning.** In this approach, the plan (which may or may not be written down) allows for radical changes in the firm's direction in the event that an appropriate opportunity comes up. In other words, the goal in the plan is such that the nature of the opportunities that can move the business towards its goal are not anticipated. They are left to the entrepreneur's judgement at the time the opportunities materialize.

Often, opportunistic planners will exploit an opportunity that appears to have nothing to do with their goals — because they feel it will position them better to exploit another opportunity later on that will move them in the right direction.

“Sometimes, to arrive at a point, you have to go away from it first. The strategic path is a series of option points.” —

President of a manufacturer of water treatment equipment in Calgary.

**Strategic planning.** In this approach, the definition of the goal is predicated on certain types of opportunity, although their timing and exact nature may not be known in advance. This doesn't mean, however, that unanticipated or unexpected opportunities are ignored. Seizing the right opportunities is critical to the success of any venture. Strategic planners are just a little more fussy about the context of any opportunities they will exploit.



The distinction between opportunistic and strategic planning is quite different from that between opportunity grabbers and opportunity creators. An opportunity creator can plan opportunistically just as a strategic planner can be an opportunity grabber. The table below shows the correlation between these two characteristics:

**Table 7.2<sup>3</sup>** *Where Opportunism and Strategy Meet*

Distribution of entrepreneurs who use strategic or opportunistic planning compared with opportunity creators or opportunity grabbers			
Perception of opportunity	Opportunistic planners	Strategic planners	Don't know
	%	%	%
Opportunity grabbers	20	20	1
Opportunity creators	8	42	1
Combined	2	6	—
<b>Total</b>	<b>30</b>	<b>68</b>	<b>2</b>

The strategic planners predominate. The opportunity creators tend to be strategic planners, as might be expected, but the opportunity grabbers are evenly split.

The approach that entrepreneurs take to planning is determined to a significant degree by their attitude toward opportunity. Those who feel they create their own opportunities are much more likely to adopt full-scale plans than opportunity grabbers. Table 7.3 shows that the latter are much more inclined to go with specific goals or with a general direction.

**Table 7.3<sup>4</sup>** *Perception of Opportunity and Planning Types*

Distribution of entrepreneurs by their perception of opportunity and planning types					
Opportunity perception	Project plans	Goal setters	Direction setters	Full-scale plan	No plan
	%	%	%	%	%
Creators	46	38	36	63	0
Grabbers	46	50	55	29	100
Combined	8	12	9	8	0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

<sup>3</sup>*Ibid.*

<sup>4</sup>*Ibid.*



Comparable results derive from the planning type preferred by those who prefer strategic planning to opportunistic planning. Table 7.4 shows that the strategists prefer full-scale plans or goals, while the opportunists are happiest with setting themselves a broad direction or planning by projects. Only four people don't plan at all and all of them are opportunists, of course.

**Table 7.4<sup>5</sup>** *How Strategists Plan Differently From Opportunists*

Distribution of entrepreneurs by their planning style and planning type					
Planning style	Project plans	Goal setters	Direction setters	Full-scale plan	No plan
	%	%	%	%	%
Strategic	63	75	64	76	0
Opportunistic	37	25	36	24	100

There are also clear patterns of evolution in the approach toward planning as the firm grows older. The firms most likely to indulge in full-scale planning are those that have been controlled by the current owner for five years or less or for more than 21 years. It would be normal for mature firms to use elaborate planning, but the prevalence of this type of planning in the younger firms would seem to indicate that the increased emphasis on business plans for startups as well as acquisitions is having an effect.

<sup>5</sup> *Id.*

Once the younger firms are established, they tend to revert to more traditional patterns, adopting less elaborate plans. The table below shows how firms 6-10 years old favour project planning and goal setting, while those 11-15 years old favour direction setting, a natural progression. Once they reach the next age bracket, however, direction setting goes right out of favour, being replaced by project planning and goal setting — or no plan at all.

Table 7.5<sup>6</sup>*Evolution of Planning Types*

Type of plan	Planning type by number of years that the owner has owned the business				
	Number of years of control				
	0-5	6-10	11-15	16-20	21+
	%	%	%	%	%
Project	21	36	22	30	11
Goals	8	11	6	10	6
Direction	4	11	22	10	11
Full-scale	63	42	44	40	66
No plan	4	0	6	10	6
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

In the final analysis, however, the question must be asked: Does it work? The entrepreneurs in this study believed, sometimes reluctantly, that it does — provided there are no illusions about the nature of entrepreneurial planning. There was general agreement that the process of planning is more important than the plan itself.

When asked if their plans generally worked out as expected, many said they did. The answers may also reflect more about the plans themselves than whether they really worked out as expected. Sometimes, the planning process is immature or poorly-performed, in which case it is unlikely the results will bear any resemblance to the plan. Sometimes, the plan is well-performed but in far too great detail, in which case the outline may be accurate but the details will inevitably be wrong. Sometimes the pace of the environment is such that no plan can work out as expected. Often the plan works out as expected but more quickly than predicted.

<sup>6</sup>*Ibid.*

A recent study of the chief executive officers of INC. magazine's 500 fastest growing firms in the U.S.<sup>7</sup> confirms the utility of planning — less than one-sixth of the 242 CEOs found planning to be “not (or seldom) useful”. (The average sales of these firms were \$8.8 million, they employed 115 people and the findings on their approach to planning are close to those in the Canadian study.)

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in A. Seeger, Jeffrey C. Shuman, Nicholas C. Teebagy, from Bentley College. *Culture-related differences in entrepreneurs' planning behaviour*, ICSB. 1987.



# Appendix A: Definitions of Small Business

An enduring problem in talking about small businesses is defining what should be considered small. There are a great number of definitions, useful in differing circumstances. Here are some of the major ones:

The Small Business Branch of the Ministry of Industry, Trade and Technology defines small firms as those with fewer than 100 employees.

The Small Business Loans Act limits eligibility to firms with annual revenues of less than \$2 million.

The Small Business Secretariat in the Department of Regional Industrial Expansion defines small business as firms with annual revenues of less than \$2 million. Medium-sized firms have annual revenues of \$2 million — \$20 million. The rest are big firms.

The Small Business Administration in the U.S. — for which the definition must be precise because its loan programs depend on it — has this to say: “For business loan purposes, SBA defines a small business as one who, with its affiliate(s), is independently owned and operated, not dominant in its field and is within employment or sales size standard imitations developed by this agency.

“For most industries, the size standard limitations are set by average annual sales or revenues over the past three fiscal years, or by average employment over the preceding 12 months. The size standard imitations shown below reflect various ranges by industry, within the groupings. For example, in the retail industry, a retailer of children’s wear has a size standard limitation of \$3.5 million, whereas a department store has a size standard limitation of \$13.5 million. In the manufacturing industry, a manufacturer of wine has a size standard imitation of 500 employees, whereas a manufacturer of tires has a size standard limitation of 1,000 employees. In the transportation grouping, there are both employment and revenue size standards, depending on the specific type of business.

“The size standard limitations are as follows:

Manufacturing	500 to 1,500 employees
Wholesaling	500 employees
Retailing	\$3.5 million to \$13.5 million
Services	\$3.5 million to \$14.5 million
General contracting	\$17 million in revenues
Specialty trade contracting	\$7 million in revenues
Agriculture	\$100,000 to \$3.5 million in sales
Transportation	\$3.5 million to \$12.5 million in revenues and 500 to 1,500 employees.”

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## Appendix B: Small Business Advocacy Reports

These research reports are available from Small Business Advocacy, Ministry of Industry, Trade and Technology, 7th Floor, Hearst Block, 900 Bay Street, Toronto, Ontario M7A 2E1 (416) 965-6304.

### **1. Survey of Small Business Registrants, 1984 (October 1984)**

Results of interviewing 911 Ontario entrepreneurs about the businesses they start. Includes information on investment, hiring intent, previous experience, type of business, why the business was started and demographics.

### **2. Self-Directed RRSP Investment in Private Companies (May 1985)**

Survey of characteristics of holders of self-directed RRSPs (150 people). Results compared to information obtained from 2,000 people when they either opened self-directed RRSPs or transferred funds to such an RRSP. Survey was conducted on behalf of SBA by Decision Marketing Research Ltd.

### **3. Expanding Ontario's Small Business Development Corporations Program to Business Services (May 1985)**

Argument for extending eligibility under Ontario's SBDC program to Ontario's business service firms. Also argues for expansion of SBDC's existing Match-up Service to introduce appropriate SBDC investors and small business owners and emphasize smaller placements of equity.

### **4. An Advance Notice System for Proposed Regulatory Initiatives (September 1985)**

Proposal to create an Advance Notice System in Ontario. Includes an examination of advance notice in place in other jurisdictions, description of Ontario's history with respect to advance notice, identification of principles to be considered in any improvement of the regulatory process and policy options and recommendations.



## **5 Newly-Formed Small Businesses in Ontario, 1982-84 (August 1985)**

Results of interviewing 861 Ontario entrepreneurs. Provides a profile of Ontario's small business owners and their attitudes about various issues and programs, as well as a comparison of unincorporated and incorporated businesses. As well, the research provides a profile of the kinds of businesses that are started and remain viable. Survey was conducted on behalf of SBA by The Creative Research Group.

## **5 Small Business Payroll Taxes (March 1986)**

The economic implications of payroll taxation on small businesses are examined. Also looks at the effects of abolishing Ontario Health Insurance Plan premium payments and replacing the payments with a 2% employer-paid payroll tax. Features an examination of impacts on an average small business, a garage, a restaurant, a construction firm and a manufacturer.

## **5 Small Business Regulation and Paperburden (March 1986)**

A joint project of SBA and the Department of Regional Industrial Expansion, Ontario Region, the study identifies and clarifies specific areas of regulatory and paperburden in Ontario's small business community. Looks at problems and problem sources identified by the general economic sectors and more specifically the tourism sector. Survey was conducted by The DPA Group Incorporated.

## **5 Entrepreneurship and Small Business (April 1986)**

A discussion paper tabled in the Ontario Legislature by the Minister of Industry, Trade and Technology, the Honourable Hugh O'Neil, as a supplement to the Ontario Budget of April 1986. Describes: entrepreneurship in Ontario, new business formation and small firm performance.

## **5 The Ontario Investment Network (April 1986)**

Describes the rationale for the establishment of the Ontario Investment Network (presently operated by the Ontario Chamber of Commerce under the name Computerized Ontario Investment Network-COIN). Discusses the chronic shortage of equity capital offered by the small business community across Canada.

**10. New Small Businesses (April 1986)**

The 1986 survey of new unincorporated business starts. The results of 1,118 interviews show the age, sex, previous ownership and employment experience of new business owners as well as the reasons for starting the business. The study also breaks down the startups by sector and expected billings and source of investment.

**11. New Ventures: A Loan Guarantee Program for New Businesses in Ontario (June 1986)**

Describes rationale for the New Ventures Program, announced in the Speech from the Throne in April 1986. Discusses access to financing problems of small businesses. Shows design of the New Ventures program including details on eligibility criteria, program administration, roles of co-sponsors, application processes and costs of program. A project of the Committee of Parliamentary Assistants for Small Business and Rick Ferraro, Small Business Advocate.

**12. Small Business Capitalization and Proposed Pension Investment Reforms (August 1986)**

SBA submission to the Pension Commission of Ontario regarding the policy recommendations for the regulation of pension fund investments. Argues for expanding the universe of eligible pension fund investments to include more small businesses. Includes copy of the Pension Commission recommendations.

**13. Targetting Employee Share Ownership Plans to Small Business (September 1986)**

Describes the rationale for targetting the Employee Share Ownership Plan program (announced in the June 1986 Budget) to small businesses. Provides recommendations on how the plans' optimum use by the small business community may be encouraged.

**14. Workers' Compensation Experience Rating: A Claim Deductible Concept (October 1986)**

The study examines the feasibility of introducing a concept of a claims deductible into the experience rating of claims costs under Workers' Compensation in Ontario. Study was conducted on behalf of SBA by William M. Mercer Ltd.

**5. Hours of Work and Overtime in Small Business: Five Case Studies (December 1986)**

Case studies of hours of work and overtime practices in five Ontario firms: sewer and water main contracting, clothing manufacturer, courier and moving service, lumber and building supply, and weigh scale repair and distribution. Qualitative research on attitudes of owners towards overtime and data on firms and their practices.

**6. The State of Small Business (December 1986)**

The first annual report on small business in Ontario. Features data on: the job creation record and growth of small business, profiles of the small business owner, franchising, women business owners, the aspirations and achievements of new business owners, small business financing and effects of public policy on the small business community. Tabled in the Ontario Legislature in December 1986 by the Minister of Industry, Trade and Technology, the Honourable Hugh O'Neil. A project of the Committee of Parliamentary Assistants for Small Business and Rick Ferraro, Small Business Advocate. Available in French as *La Situation des petites entreprises*.

**7. University Centres of Entrepreneurship for Ontario (February 1987)**

Describes rationale for the establishment of centres of entrepreneurship in Ontario universities. Included in the April 1986 Speech from the Throne.

**8. Ontario's Fast-Growth Companies (April 1987)**

Examines the characteristics of 84 successful Ontario entrepreneurs. Study conducted on behalf of SBA by Decision Marketing Research Ltd.

**9. Small Business Payroll Taxes, 1987 (March 1987)**

The 1987 update of the 1986 Small Business Payroll Tax study. Focusses on the increasing burden Workers' Compensation places on small businesses.

**20. The Status of Female Employees in Small Business (June 1986)**

Survey of 353 Ontario small business owners (in the manufacturing sector) regarding the status of women in their firms. Examines employment patterns, wage and salary administration, personnel practices and company policies. Also looks at which form of pay equity legislation would least affect the viability of small businesses. Survey was conducted on behalf of SBA by Hay Management Consultants.

**21. Pay Equity & Ontario's Small Business Sector (June 1986)**

Survey of 302 Ontario small business owners (representing all industrial sectors) regarding the types of personnel practices they follow in their firms. Also includes results of 16 interviews with persons knowledgeable about pay equity and small business regarding how to implement pay equity in small businesses. Survey conducted on behalf of SBA by Urban Dimension Group Inc.

**22. Business Transfer Tax: Modelling the Impact on Small Firms (November 1987)**

Study demonstrates how profits and sales in several Ontario small businesses might be affected by the federal government's proposed business transfer tax. Examines eight types of businesses: retail florists (unincorporated and incorporated), retail drug stores (incorp.), rubber processors and suppliers (incorp.), fan and ventilator manufacturers (incorp.), engineering processing firms (incorp.) and lodges and motels (incorp.).

**23. Business Starts in Ontario: An Econometric Analysis and Forecasting Model (August 1987)**

Reports on the determinants of new business starts, including changes in population and labour force, industrial structure and rates of unemployment, output growth, costs of borrowing and inflation. Includes a computer-based forecasting model for the next five years. Study carried out by Quantec Research Ltd.



**MINISTRY OF INDUSTRY,  
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# The State of Small Business



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# The State of Small Business



## 1988 Annual Report on Small Business in Ontario

*Le guide du propriétaire de petite entreprise  
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## Minister of Industry, Trade and Technology

I am pleased to release the third annual report on *The State of Small Business* in Ontario. This edition continues the tradition, set in 1986, of presenting significant research findings on the contributions of small business to the province's economy and creative government initiatives to nurture entrepreneurship.

I would like to recognize the contribution of my former Parliamentary Assistant, Mr. Rick Ferraro, M.P.P., and his colleagues on the Committee of Parliamentary Assistants for Small Business. They pioneered the concept of an annual report on small business and brought forward innovative proposals for the development of this important sector of our economy.

This valuable work is being carried on by my new Parliamentary Assistant, Mr. Steven Mahoney, M.P.P., who functions as Ontario's Small Business Advocate and chairs the Committee of Parliamentary Assistants for Small Business.

The government of Ontario is proud to support the spirit of entrepreneurship in this province and the men and women who, through the medium of Ontario's small businesses, work to make their dreams a reality, to the greater benefit of us all.

Monte Kwinter  
Minister

---

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The Honourable Monte Kwinter  
Minister  
Ministry of Industry, Trade and Technology  
3th Floor, Hearst Block  
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Dear Mr. Minister:

It was a privilege to serve as your Parliamentary Assistant and to chair the Committee of Parliamentary Assistants for Small Business. One of the accomplishments of which I am proudest is the annual report of *The State of Small Business*, now in its third edition.

The 1988 edition focuses in particular upon growth and the opportunities that growth brings. This year, the report celebrates the small business owners that are not content to remain small - those whose vision of success is large and inspiring.

A new feature this year is *The Small Business Owners' Guide*, offering practical suggestions for the entrepreneurs who will generate the growth of tomorrow.

I am delighted that the chair of the Committee of Parliamentary Assistants and the role of Small Business Advocate are devolving to my capable colleague, Mr. Steven Mahoney, M.P.P. I wish him and his incoming Committee the greatest success.

I know you will join with me in thanking my colleagues on the outgoing Committee and your Ministry staff for their dedication and hard work on behalf of Ontario's small businesses.

Yours sincerely,

Rick Ferraro, M.P.P.

---

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## Ministre de l'Industrie, du Commerce et de la Technology

J'ai le plaisir de présenter le troisième rapport annuel sur la situation des petites entreprises en Ontario. Ce dernier suit la tradition établie en 1986, qui consiste à présenter d'importants résultats de recherches sur la contribution des petites entreprises à l'économie de la province et les initiatives originales du gouvernement visant à favoriser l'esprit d'entreprise.

Je tiens à remercier mon ancien adjoint parlementaire, M. Rick Feraro, député à l'Assemblée législative, ainsi que ses collègues du Comité des adjoints parlementaires pour les petites entreprises. C'est grâce à eux qu'a commencé la rédaction annuelle d'un rapport sur les petites entreprises, et c'est également à eux que l'on doit des propositions innovatrices pour le développement de cet important secteur de notre économie.

Mon nouvel adjoint parlementaire, M. Steven Mahoney, député à l'Assemblée législative, prend la relève à titre de défenseur des petites entreprises et de président du Comité des adjoints parlementaires pour les petites entreprises.

Le gouvernement de l'Ontario est fier d'appuyer l'esprit d'entreprise dans notre province ainsi que les hommes et les femmes qui, en exploitant leurs petites entreprises, s'efforcent de réaliser leurs rêves au bénéfice de l'ensemble de la société.

Le ministre,

Monte Kwinter

---

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L'honorable Monte Kwinter  
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Ministère de l'Industrie, du Commerce et de la Technologie  
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Queen's Park  
Toronto (Ontario)

Monsieur,

Il fut un honneur pour moi d'être votre adjoint parlementaire et de présider le Comité des adjoints parlementaires pour les petites entreprises. Le rapport annuel sur la situation des petites entreprises, qui est publié pour la troisième année consécutive, constitue l'une des réalisations dont je suis le plus fier.

Le rapport annuel de 1988 porte en particulier sur la croissance et sur les possibilités qui en découlent. Cette année, le rapport rend hommage aux propriétaires de petites entreprises qui ne se contentent pas de leur situation actuelle, et dont la volonté de réussir constitue une source d'inspiration.

Le rapport annuel comprend une nouveauté cette année : *Le guide du propriétaire de petite entreprise*, qui offre des conseils pratiques aux entrepreneurs qui, demain, assureront notre croissance.

C'est avec grand plaisir que j'ai appris la nomination de mon collègue, M. Steven Mahoney, aux postes de président du Comité des adjoints parlementaires et de défenseur des petites entreprises. Je lui souhaite, ainsi qu'au Comité, beaucoup de succès.

Je remercie chaleureusement mes collègues du Comité sortant ainsi que le personnel du ministère pour leur dévouement et leur travail acharné au bénéfice des petites entreprises de l'Ontario.

Veuillez agréer, Monsieur, mes salutations distinguées.

Jack Ferraro, député

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The project was designed and written by Andrew J. Szonyi with the assistance of Richard Bottomley, David Brightling, Michael Szonyi and Byron E. Wall.

The staff of the Small Business Branch of the Ministry of Industry, Trade and Technology, especially Linda Ganong, Small Business Advocate and Jeffrey Stutz, Manager of Small Business Advocacy, contributed immensely to the report.

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Canadian Bankers' Association

Canadian Federation of Independent Business

Export Development Corporation

Federal Business Development Bank

Innovation Ontario

Ontario Development Corporation

Statistics Canada.





# 1 Introduction

---

## What is a "Small Business"?

Although there is agreement that small businesses are a vibrant, innovative and expanding part of the economy, different jurisdictions, programs and legislation define the term differently:

- Ontario defines a small business as one which employs fewer than 100 people.
- The federal government draws the line at 50 service sector/100 manufacturing sector employees.
- The federal government uses a ceiling of \$2 million annual sales or revenues, as does the Small Businesses Loans Act.

These "quantifiable" definitions overlook some relevant conceptual factors. One can say that a small business also possesses at least two of the following characteristics:

- Management of the firm is independent and usually the managers are also the owners.
- Capital is supplied and ownership is held by an individual, family, or small group.
- The area of operations is mainly local or regional, with the workers and owners often living in one community; however, markets need not be local.
- The firm is not dominant in its industry. Its relative size and market share is small when compared with the largest units in the field. The measure used to determine size can be volume of sales, number of employees or other significant comparison.<sup>1</sup>

## Small Business Facts & Figures

In 1986, small businesses comprised approximately 98% of all firms in Ontario.<sup>2</sup>

---

<sup>1</sup> It should be noted that, due to the scale of the Canadian economy, it is possible for a firm to be dominant in its field and yet still be "small" according to all other relevant criteria, especially when compared to its global competition.

<sup>2</sup> Source: *Employment Dynamics by Province, Industry Classification, Firm Size and Firm Status, 1978-1986*. Statistics Canada. Small Business & Special Surveys and Business Data Integration and Analysis. May 1988. This source excludes sole proprietorships and family businesses which do not issue T-4 slips.

## 1 Introduction

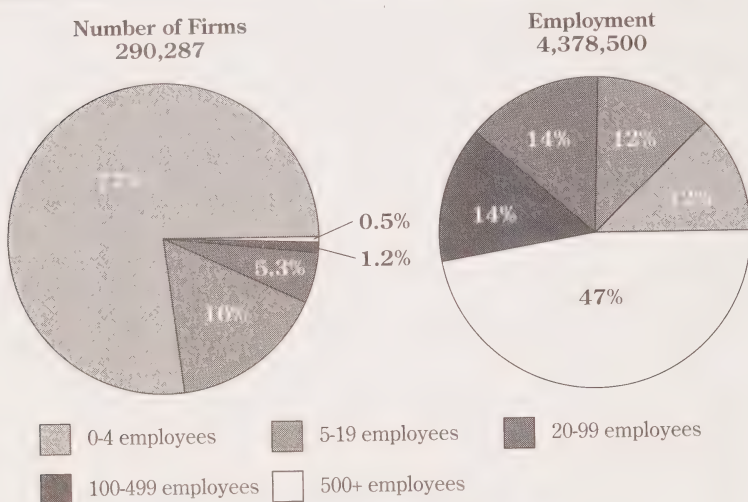
In December 1987, there were 404,561 small businesses in Ontario, including sole proprietorships.<sup>3</sup> Over 90% had fewer than 20 employees.<sup>4</sup>

More precise data, calculated on a smaller base, yield the 1986 "snapshots" in Chart 1.1.

**Chart 1.1<sup>5</sup>**

### *Where the Jobs Are, Ontario, 1986*

Percentage distribution, by size of firm, of the number of private-sector firms and their employees



In 1987, 127,617 new businesses were formed in Ontario<sup>6</sup> - an 11% increase over the previous year in annual new business formation. Chart 1.2 and 1.3 depict the rise in incorporated and unincorporated firms.

Following the charts are tables showing the distribution of Ontario firms by industry and firm size (Table 1.1) and the employment distribution by sector in small Ontario firms (Table 1.2).

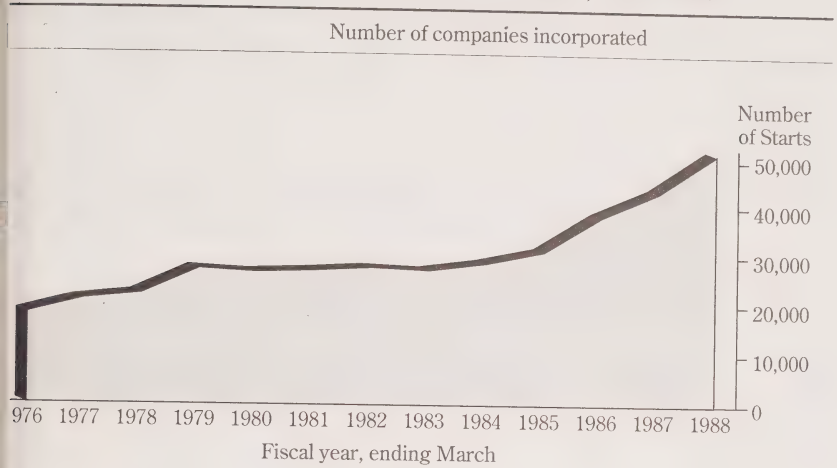
<sup>3</sup> Source: Statistics Canada, Business Register, December 1987.

<sup>4</sup> Source: Statistics Canada, Small Business Statistics Branch. Unpublished data.

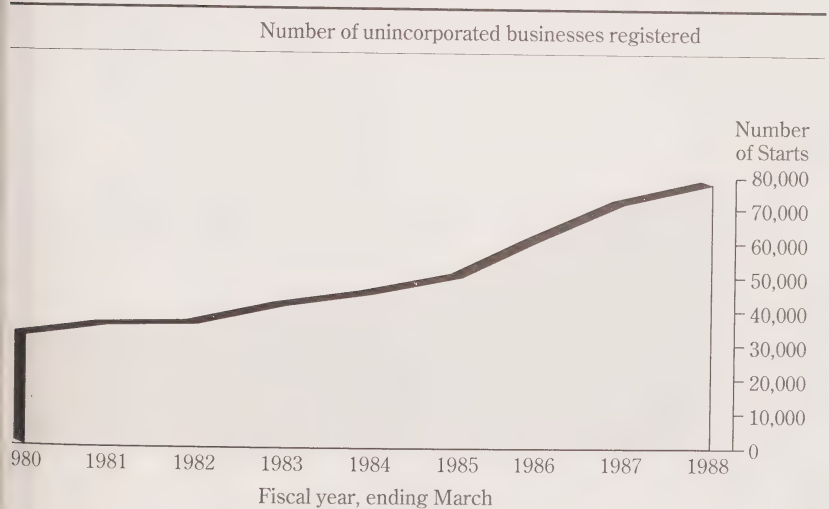
<sup>5</sup> Source: *Employment Dynamics by Province, Industry Classification, Firm Size and Life Status, 1978-86*. Statistics Canada, Small Business & Special Surveys, Business Microdata Integration and Analysis. May 1988.

<sup>6</sup> Source: Ministry of Consumer and Commercial Relations, Companies Branch. Unpublished data.

**Chart 1.2<sup>7</sup>** *New Incorporations in Ontario, 1975-1987*



**Chart 1.3<sup>8</sup>** *New Unincorporated Firms in Ontario, 1979-1987*



<sup>7</sup> Source: Internal research, Ministry of Industry, Trade & Technology, 1988 based on data from the Ministry of Consumer & Commercial Relations.

<sup>8</sup> *Ibid.*

Table 1.1<sup>9</sup> *Distribution of Ontario Firms, 1986*

Distribution, by industry and firm size, of private-sector firms

Industry	Percentage of firms that are:			Total	Number of firms
	Small firms	Medium firms	Large firms		
	%	%	%	%	#
Primary	99.9	0.1	-	100.0	18,219
Mining	90.6	5.3	4.1	100.0	872
Manufacturing	92.5	5.4	2.1	100.0	22,455
• Food & beverage	90.3	5.8	3.9	100.0	1,893
• Tobacco products	40.0	20.0	40.0	100.0	10
• Rubber & plastics	90.5	6.7	2.8	100.0	866
• Leather	83.0	14.0	3.0	100.0	229
• Textiles	86.5	10.2	3.3	100.0	636
• Knitting mills	79.7	17.3	3.0	100.0	133
• Clothing	91.0	7.7	1.3	100.0	883
• Wood	95.0	4.0	1.0	100.0	1,285
• Furniture & fixtures	96.3	3.5	0.2	100.0	1,753
• Paper & allied	82.8	9.5	7.7	100.0	430
• Printing, publishing	96.3	2.8	0.9	100.0	3,159
• Primary metal	81.1	11.9	7.0	100.0	285
• Metal fabricating	95.5	3.5	1.0	100.0	3,944
• Machinery	91.9	5.7	2.4	100.0	1,439
• Transportation equipm't	86.5	8.7	4.8	100.0	867
			2.8	100.0	949

• Chemicals	82.1	12.7	5.2	100.0	765
• Miscellaneous manufacturing	95.9	3.2	0.9	100.0	2,241
<b>Construction</b>	<b>99.3</b>	<b>0.6</b>	<b>0.1</b>	<b>100.0</b>	<b>35,787</b>
Transport./Commun./Util.	97.3	2.0	0.7	100.0	10,079
Wholesale trade	97.6	2.0	0.4	100.0	19,200
Retail trade	99.2	0.6	0.2	100.0	46,635
Finance/Ins'ce/Real est.	98.5	1.0	0.5	100.0	20,243
<b>Services</b>	<b>98.7</b>	<b>0.9</b>	<b>0.4</b>	<b>100.0</b>	<b>106,928</b>
• Storage	96.3	2.7	0.1	100.0	296
• Education	89.9	4.5	5.6	100.0	2,198
• Health & welfare	98.0	1.4	0.6	100.0	18,035
• Religious organizations	99.9	0.1	-	100.0	5,911
• Amusement, recreation	99.0	0.8	0.2	100.0	5,150
• Business management	98.7	1.0	0.3	100.0	25,969
• Personal services	99.8	0.2	-	100.0	20,266
• Accommodation, food	98.5	1.2	0.3	100.0	18,817
• Miscellaneous services	99.0	0.8	0.2	100.0	10,286
<b>Unclassified</b>	<b>100.0</b>	<b>-</b>	<b>-</b>	<b>100.0</b>	<b>8,757</b>
<b>Total - all industries</b>	<b>98.3</b>	<b>1.2</b>	<b>0.5</b>	<b>100.0</b>	<b>289,175</b>

Note: Small business is defined as companies employing fewer than 100 people; medium companies 100-499, large companies more than 500. Excludes sole proprietorships and family businesses which do not issue T-4 slips.

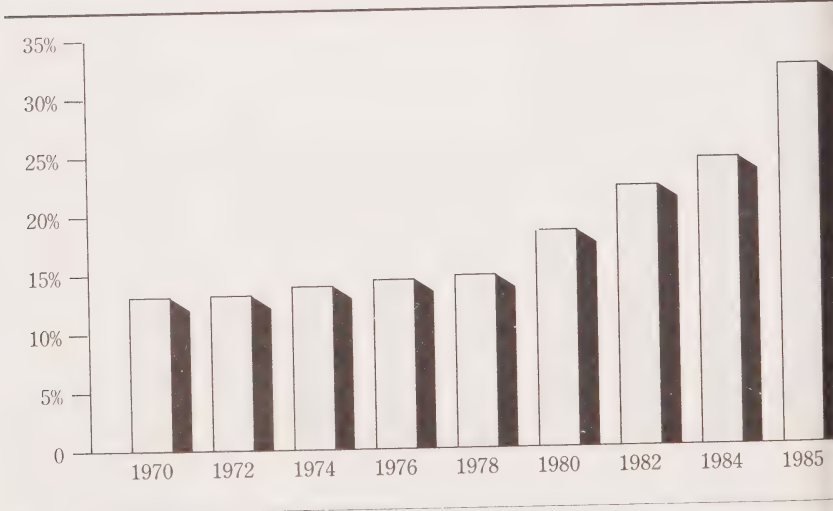
<sup>a</sup> Source: *Employment Dynamics by Province, Industry Classification, Firm Size and Life Status, 1978-86*. Statistics Canada, Small Business & Special Surveys, Business Microdata Integration and Analysis. May 1988.

**Table 1.2<sup>10</sup>** *Employment Distribution by Sector in Small Firms, Ontario, 1986*

	Number of Jobs	%
Primary	35,200	2.1
Manufacturing	299,000	17.6
Construction	157,200	9.3
Transportation and Comm.	73,700	4.3
Wholesale Trade	150,100	8.8
Retail Trade	277,800	16.4
Services (excl. Public Admin.)	675,100	39.8
Public Administration	17,100	1.0
Other	12,200	0.7
<b>TOTAL</b>	<b>1,697,400</b>	<b>100.0</b>

In 1988, 29% of Ontario's newly-formed small businesses are owned by women.<sup>11</sup> Women entrepreneurs are climbing fast, as Chart 1.4 shows.

**Chart 1.4<sup>12</sup>** *Percentage of Entrepreneurs Who Are Women, Canada, 1970-1985*



<sup>10</sup> *Ibid.*

<sup>11</sup>Source: *Newly-Formed Small Businesses in Ontario, 1985-87*, Small Business Advocacy Report No. 27, August 1988. Prepared by Laventhol & Horwath.

<sup>12</sup> Source: Revenue Canada.



Female owned and operated ventures accounted for 28% of the participants in Ontario's New Ventures program (as at October 1987).<sup>13</sup> According to data from the New Ventures program, businesses owned by women seem less likely to fail. While women comprised 28% of the borrowers under the program, they made up only 14.6% of the borrowers in default.

Demographic studies on small business ownership suggest that more young people are pursuing entrepreneurial careers. New Ventures program data show that some 50% of the new firms participating in the program are headed by people under age 30 (as at June 1988).

In 1988, Ontario's small business start-ups generated \$500 million in new investment.<sup>14</sup> A recent study found that the fastest-growing Ontario companies had average start-up investments of over \$350,000 - more than *en times* the average seed capital invested in a cross-section of all new firms.<sup>15</sup>

Ontario small businesses received \$217 million in term loans under the federal Small Businesses Loans Act during fiscal 1987-88.<sup>16</sup>

The survival rates for small business enterprises are remarkably stable. Approximately 69% of Canadian businesses are still in existence in the third year following their formation.<sup>17</sup> It is unclear what percentage of exits are attributable to mergers and acquisitions as opposed to business failures. It may be that one-quarter of apparent failures in the 20-100 employee size range are due to takeovers rather than collapses.<sup>18</sup>

<sup>13</sup> Source: Ministry of Industry, Trade & Technology and Ontario Development Corporation, *New Ventures Preliminary Results*, February 1988.

<sup>14</sup> Source: MITT Estimate.

<sup>15</sup> Source: *Ontario's Fast Growth Companies*, Small Business Advocacy Report No. 18, April 1987. Prepared by Decision Marketing Research Ltd.

<sup>16</sup> Source: Small Businesses Loans Act *Annual Report*, March 31, 1987.

<sup>17</sup> Source: Statistics Canada. Unpublished data for successive 3-year periods ending

81-84. Includes firms with employees only.

<sup>18</sup> Source: MITT Estimate.



# 2 The Mighty Job Creation Machine

## **Most New Jobs in Canada are Created by Small Businesses**

The point has been made many times, but it bears repeating: small business is the engine of job creation. Firms with fewer than 100 employees accounted for 1,697,000 jobs in Ontario in 1986 - 39% of all jobs in Ontario, and 42% of jobs in the private sector.<sup>1</sup>

Small business continues to be the most dynamic source of job creation. From 1978 to 1986, 73% of all net new jobs in Ontario came from businesses with fewer than 100 employees. Fifty-nine percent of net new jobs in this period came from Ontario firms with fewer than 20 employees.<sup>2</sup>

## **Growth in Jobs Occurs Mostly in Large and in Small Firms, but Less in Medium-Sized Firms**

The most evident trend in job creation in the 1980s is the move toward fewer, but larger, firms, at one extreme, and at the other extreme, greater numbers of very small firms. Firms caught in the middle are either growing more slowly, or are shrinking, both in total numbers of firms and in numbers of jobs provided. This is a trend across Canada; indeed, the trend is more pronounced outside Ontario.

As Table 2.1 shows, Ontario firms with 100 to 500 employees created only 11% of net new jobs in the period 1978-1986. For Canada as a whole, only 7% of net new jobs were created by firms with 100 to 500 employees, while firms with 500 or more employees created 9% of net new jobs and firms with fewer than 100 employees created 84% of net new jobs.

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<sup>1</sup> Source: *Employment Dynamics by Province, Industry Classification, Firm Size and Life Status, 1978-1986*. Statistics Canada. Small Business & Special Surveys and Business Microdata Integration Analysis. May 1988. This source excludes sole proprietorships and family businesses which do not issue T-4 slips.

<sup>2</sup> *Ibid.*

Table 2.1<sup>3</sup>*Job Creation in Ontario and Canada, 1978-1986*

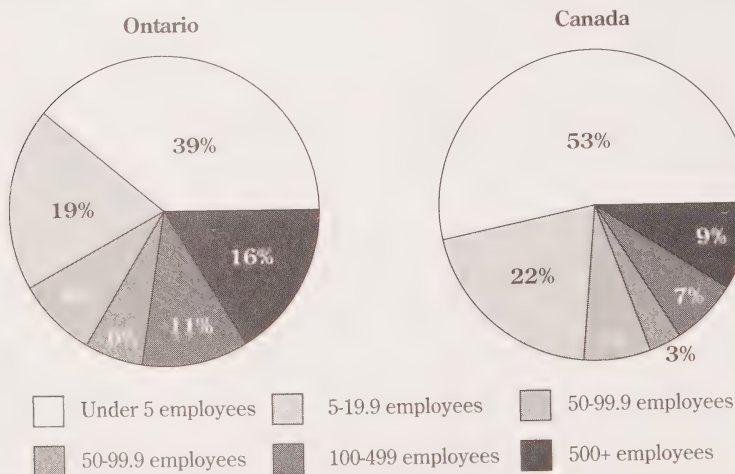
Total net change in jobs (ALUs)* - all industries**				
Number of employees (ALUs)	Ontario		Canada	
	(000)	%	(000)	%
<5	316.6	39	863.4	53
5-19.9	156.5	19	352.0	22
20-49.9	67.3	8	110.1	7
50-99.9	51.4	6	44.5	3
100-499.9	84.9	11	117.3	7
500+	130.6	16	141.6	9
<b>All firms</b>	<b>807.2</b>	<b>100</b>	<b>1629.1</b>	<b>100</b>

\*Average Labour Units (ALUs) are calculated by dividing the annual payroll of a firm (per province), as reported to Revenue Canada, by an appropriate estimate of average earnings for each standard industry classification (SIC) code.

\*\*SIC Codes 000-999.

Chart 2.1<sup>4</sup>*Job Creation in Ontario and Canada, 1978-1986*

Total net change in jobs (ALUs) - all industries



<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

## Small and Very Small Businesses Create Jobs in All Sectors

As the economy waxes and wanes and as the configuration of industry shifts, sectors of industry grow or diminish in accordance with changing needs. It is amazing that, almost without exception, through good times and bad, in all sectors of industry, whether experiencing overall growth or overall stagnation and decline, new jobs are constantly being created by small and very small businesses. There is considerable variation by sector in the quantity of new jobs and the size of small business from which the greatest gains emanate.

### Primary Industries

There was little change in employment in primary industries (mostly agriculture) over the period 1978-86, with 5,900 net new jobs added. Of those, 81% were provided by businesses with fewer than 5 employees, and 100% were provided by businesses of fewer than 100 employees.

### Manufacturing

In manufacturing, Ontario had a net gain of 64,100 jobs during 1978-86, compared with a net loss of 3,400 for Canada as a whole. Ontario's growth came from small businesses. Firms employing fewer than 100 people provided 107,600 net new jobs, while firms with over 100 employees lost a total of 49,900 net jobs.

**Table 2.2<sup>5</sup>** *Job Creation in Ontario and Canada, 1978-1986*

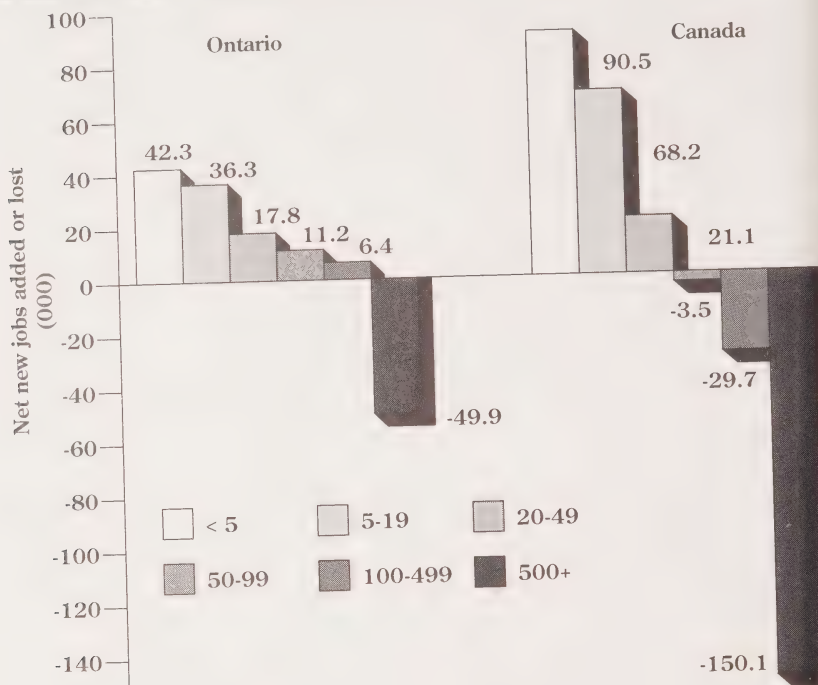
Total net change in jobs (ALUs) - manufacturing*				
Number of employees (ALUs)	Ontario		Canada	
	(000)	%	(000)	%
	42.3	66	90.5	N/A
59.9	36.3	57	68.2	N/A
249.9	17.8	28	21.1	N/A
599.9	11.2	17	-3.5	N/A
1-499.9	6.4	10	-29.7	N/A
5+	-49.9	-78	-150.1	N/A
<b>All firms</b>	<b>64.1</b>	<b>100</b>	<b>-3.4</b>	<b>100</b>

Codes 101-399

<sup>5</sup> *Ibid.*

Chart 2.2<sup>6</sup>*Job Creation in Ontario and Canada, 1978-1986*

Total net change in jobs (ALUs) - manufacturing\*



\*SIC Codes 101-399

*Construction*

Construction industries added a net 44,200 new jobs in Ontario during 1978-86, and a net 36,800 new jobs in Canada. This indicates that in Canada, outside of Ontario, there was a net job loss in the construction industry. The gains all came from small businesses. Firms with fewer than 5 employees were responsible for 37,200 net new jobs in Ontario (84% of net Ontario growth), and for 90,400 net new jobs nationally (24% of the net national gain).

<sup>6</sup> *Ibid.*



*Transportation and Communications*

The transportation and communications industries were net job losers both provincially and nationally during 1978-86. But the losses came from the large firms. In Ontario, 55,300 net jobs were lost in the period. Firms with 500 or more employees lost 83,900 net jobs, which more than cancelled the 24,300 net new jobs added by firms with fewer than 50 employees.

*Wholesale & Retail Trade; Finance, Insurance & Real Estate*

The wholesale and retail trade sectors, as well as the finance, insurance and real estate sector, exhibited the curious phenomenon of strength at the extremes and weakness in the middle. The similarities between these sectors perhaps relate to their common sensitivity to the economic cycle.

Wholesale trade had a net gain of 42,900 jobs in Ontario and 67,600 jobs in Canada during 1978-86. Of these, 89% of the Ontario gains and 26% of the national gains were from firms with fewer than 20 employees.

Retail trade had a net gain of 129,400 jobs in Ontario and 339,100 in Canada. All business size categories showed gains, but 51% of the Ontario gains and 60% of the national gains were from firms with under 20 employees, while 27% of the Ontario gains and 26% of the national gains came from firms with 500 or more employees. Only 22% of the Ontario gains and 14% of the national gains were produced by the broad range of firms with 20 to 500 employees.

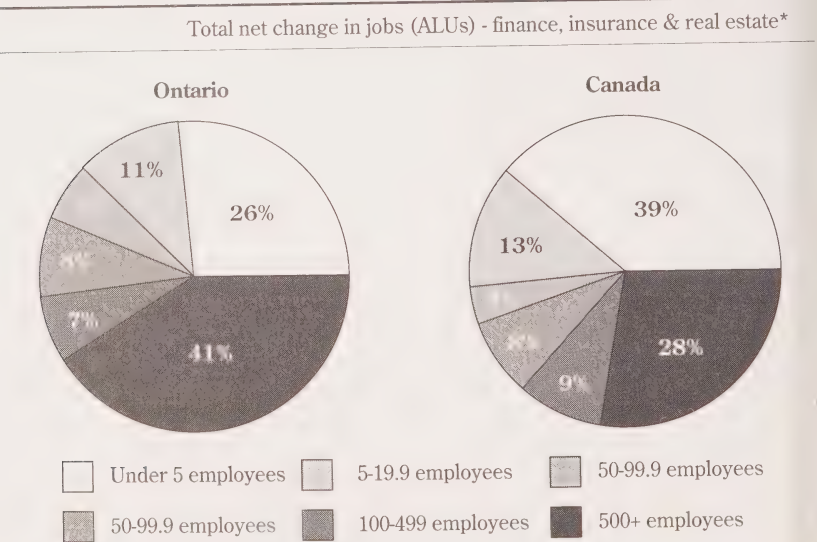
The picture in the finance, insurance and real estate sector is similar. Net jobs gained were 80,100 in Ontario and 120,700 in Canada, and all business size categories showed gains. However, 37% of gains in Ontario and 52% nationally were from firms with fewer than 20 employees, while 1% of gains in Ontario firms and 28% nationally were from firms with 500 or more employees. This left 21% of gains in Ontario and 20% nationally to firms with 20 to 500 employees.

Table 2.3<sup>7</sup>      *Job Creation in Ontario and Canada, 1978-1986*

Total net change in jobs (ALUs) - finance, insurance & real estate*				
Number of employees (ALUs)	Ontario		Canada	
	(000)	%	(000)	%
<5	20.5	26	47.0	39
5-19.9	9.2	11	16.2	13
20-49.9	4.7	6	4.5	4
50-99.9	6.7	8	9.3	8
100-499.9	6.0	7	10.4	9
500+	33.1	41	33.3	28
All firms	80.1	100	120.7	100

\*SIC Codes 701-799

Chart 2.3<sup>8</sup>      *Job Creation in Ontario and Canada, 1978-1986*



\*SIC Codes 701-799

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

## Services

The service sector has been growing in recent years. A recent study of young small businesses in Ontario (those started in the past six years) revealed that, of 944 businesses surveyed, 414 (43.9%) were in service-type businesses.<sup>9</sup>

All types of services are expanding and all sizes of businesses in this sector are adding new jobs. However, the pattern of growth in the large and small firms, and less growth in the middle, repeats itself in this sector.

In community services (education, health and welfare services, and religious organizations), there were 143,700 net new jobs in Ontario in 1978-86 and 376,600 nationally. In this area, the larger firms were strongest. Firms with 100 or more employees were responsible for 59% of net new jobs in Ontario and 51% nationally. Firms with fewer than 20 employees created 34% of net new jobs in Ontario and 37% nationally. The firms in the range of 20 to 100 employees were weakest in job creation.

In business and personal services, net new jobs created were a robust 218,000 in Ontario and 499,100 in Canada. Though all sizes of firms added jobs, the greatest contributions came from firms with fewer than 50 employees, which accounted for 70% of the new jobs in Ontario and 79% in Canada.

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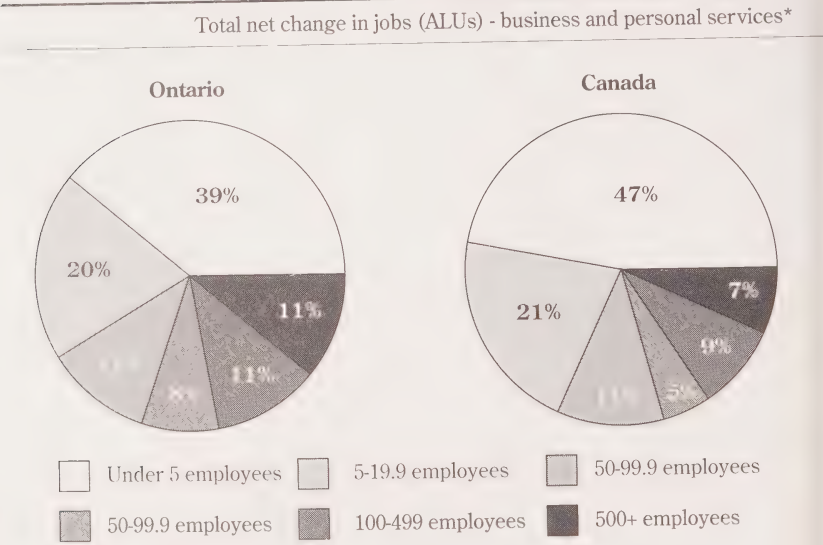
<sup>9</sup> Source: *Newly-Formed Small Businesses in Ontario, 1985-87*, Small Business Advocacy Report No. 27, August 1988. Prepared by Laventhol & Horwath.

Table 2.4<sup>10</sup>      *Job Creation in Ontario and Canada, 1978-1986*

Total net change in jobs (ALUs) - business and personal services*				
Number of employees (ALUs)	Ontario		Canada	
	(000)	%	(000)	%
<5	86.0	39	232.8	47
5-19.9	44.4	20	106.6	21
20-49.9	23.0	11	53.1	11
50-99.9	17.2	8	24.8	5
100-499.9	24.2	11	45.5	9
500+	23.2	11	36.4	7
All firms	218.0	100	499.1	100

\*SIC Codes 841-899

Chart 2.4<sup>11</sup>      *Job Creation in Ontario and Canada, 1978-1986*



\*SIC Codes 841-899

<sup>10</sup> Source: *Employment Dynamics by Province, Industry Classification, Firm Size and Life Status, 1978-1986*. Statistics Canada. Small Business & Special Surveys and Business Microdata Integration and Analysis. May 1988.

<sup>11</sup> *Ibid.*

Not surprisingly, public administration - the arms of government - is dominated by large organizations. The bulk of public administration jobs, both federal and provincial, was created in organizations with over 500 employees.

### **The Distribution of Small Businesses in Ontario by Industry Sector**

Small businesses in Ontario are spread through all industry sectors, though they tend to be more heavily represented in the sectors where business success is subject, not to size or economies of scale, but to factors such as specialization, customer service and quickness of response. Services, retail trade and construction account for 75% of small businesses in Ontario, and 72% nationally.

Table 2.5 gives a breakdown of the number of businesses registered as at December 1987 by industry sector for Ontario and for Canada. Also shown is the ratio of Ontario to Canadian firms for each sector. When compared with the ratio of the totals (32.7%), Ontario is, as expected, underrepresented in fishing and trapping. Less obvious is why Ontario should be underrepresented in small businesses engaged in government services.

**Table 2.5<sup>12</sup>***Distribution of Small Businesses by Industry,  
Ontario and Canada, December 1987*

Industry (1980 S.I.C.)	Ontario		Canada		Ont./Can.
	# firms	%	# firms	%	
Agriculture	27,076	6.7	108,707	8.8	24.9
Fish'g & trapp'g	379	0.1	7,729	0.6	4.9
Logg'g & forestry	1,554	0.4	10,601	0.9	14.7
Min'g, quarry'g, oil	1,637	0.4	9,331	0.8	17.5
Manufacturing	22,413	5.5	56,767	4.6	39.5
Construction	52,943	13.1	146,281	11.8	36.2
Transport'n, storage	11,095	2.7	45,564	3.7	24.4
Communicat'ns, util.	2,020	0.5	6,459	0.5	31.1
Wholesale trade	23,081	5.7	66,794	5.4	34.6
Retail trade	67,258	16.6	211,186	17.1	31.8
Finance & insur.	13,319	3.3	35,681	2.9	37.3
R.E., ins. agents	18,097	4.5	48,977	4.0	36.9
Business services	36,999	9.1	100,080	8.1	37.0
Government services	1,466	0.4	8,141	0.7	18.0
Education services	2,230	0.6	7,308	0.6	30.5
Health, soc. serv.	21,963	5.4	61,916	5.0	35.5
Accommodation, food	27,369	6.8	85,614	6.9	32.0
Other services	73,557	18.2	218,665	17.7	33.6
Other SIC	105	-	226	-	46.5
<b>All Industries</b>	<b>404,561</b>	<b>100.0</b>	<b>1,236,027</b>	<b>100.0</b>	<b>32.7</b>

### **The Distribution of Small Businesses in Ontario by Geographic Region**

There are more existing small businesses and more new businesses being started per capita in the more populous regions of Ontario. For example, the number of existing small businesses per capita in Metropolitan Toronto is a third higher than that in Northern Ontario - 43.4 per 1000 population compared to 32.4 per 1000 - and, even more striking, the number of start-ups is nearly five times as great - 15.5 per 1000 versus 3.3 per 1000.

<sup>12</sup> Source: Statistics Canada, Business Register. December 1987. This source registers unincorporated businesses and business startups, a somewhat different measure from the data cited earlier.



This means that not only are there fewer opportunities for employment in small businesses in less populous regions, there is less likelihood of more opportunities in the future. It is for this reason that government programs are designed especially to encourage the development of small businesses outside of the major centres in Ontario.

**Table 2.6<sup>13</sup>** *Regional Distribution of Existing Small Businesses, Ontario, December 1986*

Region	No. of businesses	No. per 1000 pop.
Metro Toronto	92,800	43.4
Central Ontario	124,600	37.2
Southeast Ontario	44,700	36.5
Southwest Ontario	50,100	39.1
Northern Ontario	26,800	32.4
<b>Total</b>	<b>339,000</b>	<b>38.5</b>

**Table 2.7<sup>14</sup>** *Regional Distribution of Unincorporated Small Business Starts, Ontario, 1987*

Region	No. of new businesses	Start-ups per 1000 pop.
Metro Toronto	33,225	15.5
Central Ontario	29,400	8.8
Southeast Ontario	5,025	4.1
Southwest Ontario	4,650	3.6
Northern Ontario	2,700	3.3
<b>Total</b>	<b>75,000</b>	<b>8.5</b>

### An Econometric Model for Forecasting Business Starts

Although business starts are recognized as an important source of job creation, little is known of the economic and demographic factors that might be related to the formation of new businesses.

A recent study<sup>15</sup> undertook to help determine those factors and the

<sup>13</sup> Source: Statistics Canada, Business Register. December 1986.

<sup>14</sup> Source: Ministry of Consumer and Commercial Relations, Companies Branch.

Unpublished data.

<sup>15</sup> *Business Starts in Ontario: An Econometric Analysis and Forecasting Model*, Small Business Advocacy Report No. 23, August 1987. Prepared by Quantec Research Ltd.

related issue of generating forecasts of new businesses using explanatory variables.

The study demonstrates that business starts are clearly related to industrial structure and economic variables such as real growth, unemployment and inflation rates, real interest rates, and labour force growth. Other factors, such as age and sex ratios, were shown to have negligible impact.

In terms of magnitude, industrial structure had the greatest impact on variations in the rate of business formation when cross-sectioned data were examined across provinces. However, this finding is of limited applicability for time-to-time comparisons, since industrial structure changes very slowly through time.

A select handful of other economic variables, available through time, proved to have some explanatory power in accounting for year-to-year differences in business starts. Overall though, these economic variables had a relatively minor impact when compared with industrial structure.

The study includes a forecasting model to estimate starts based on four key variables: unemployment rate, rate of inflation, real interest rate, and an Ontario labour force estimate. The model, available on IBM PC compatible microcomputer diskette, can be updated by the user as more recent data on starts and associated variables are added to the data base.

# 3 Workers and Wages

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## Hours of Work & Overtime

When full-time employees work beyond their regular hours, less work remains to be done and job opportunities for the unemployed are reduced. Government regulations limiting the amount of overtime that can be demanded of employees and regulating the rates at which overtime work must be paid can therefore affect job openings. But while large businesses can lower overtime work and add more positions to provide the necessary labour coverage, small businesses may be less able to solve their need for extra labour in this way.

In 1986, when unemployment averaged 9.6% in Canada and 7.0% in Ontario, some of the employed were working a record number of hours of overtime. From the point of view of social policy, it was not advantageous to have many workers unable to find a job while others were working beyond a regular full-time load. The Ontario Ministry of Labour commissioned a Task Force to recommend possible changes to the Employment Standards Act to improve the balance of supply and demand for labour.

The Task Force on Hours of Work and Overtime completed the first phase of its report in May 1987. The Task Force reported that laws which regulated the use of scheduled overtime were regularly being flouted, and made a number of recommendations for change, including setting the limit of a regular work week at 40 hours instead of the current 44, and prohibiting the practice of compulsory overtime (currently up to 4 extra hours per week).

Realizing that any changes to labour legislation recommended by the Task Force could have a disproportionate effect upon small business, two studies were commissioned by Small Business Advocacy in the Ministry of Industry, Trade and Technology to gain an understanding of the way overtime was used in small firms and the impact of the proposed changes.

The first study, *Hours of Work and Overtime in Small Business: Five Case Studies* (SBA Report No. 15, December 1986), qualitatively examined the overtime practices in five firms: sewer and water main construction, clothing manufacture, courier service, lumber supply, and weigh scale repair service. This study was submitted to the Task Force for its consideration in early 1987.

The second study, *Hours of Work and Overtime in Small Business*

(SBA Report No. 24, January 1988), surveyed a randomly-selected sample of 300 small firms (with fewer than 100 employees) and compared the results with a control group of 60 large firms.

The second study tested the reactions of small business owners to the Task Force recommendations. The study found that the Task Force proposals were unlikely to have a significant effect on the overall average hours worked per week in Ontario, but that some of the recommendations would affect small and large firms differently. In particular, the recommendations which would affect the compensation of workers per hour worked had a greater impact on small businesses than on larger firms, while the recommendations affecting the annual number of days a fulltime worker was on duty had a greater impact on larger firms.

### *Unpaid Leave a Greater Problem for Larger Firms*

The Task Force recommended giving employees with over 10 years of service the right to take unpaid leaves of 1 week per year and additional unpaid leave beginning 4 years prior to retirement. Entitlement to additional leave would accrue at the rate of 1 week per year to a maximum of 4 additional weeks.

Few small companies saw these policies as problematic, but a majority of the larger firms did see both suggestions as potentially causing difficulties.

**Table 3.1<sup>1</sup>** *Business Owners' Response to Proposed 1-Week Unpaid Leave After 10 Years, Ontario, 1987*

Predicted result of this change	Small Companies	Large Companies
	%	%
Would be a major problem for firm	11	32
Would be a minor problem for firm	15	20
Would have little or no effect	56	32
Would have little or no effect because have similar policy now	18	16
<b>Total</b>	<b>100</b>	<b>100</b>

<sup>1</sup> Source: *Hours of Work and Overtime in Small Business*, Small Business Advocacy Report No. 24, January 1988. Prepared by Decision Marketing Research Ltd.

**Table 3.2<sup>2</sup>**      *Business Owners' Response to Proposed Unpaid Leave  
Prior to Retirement, Ontario, 1987*

Predicted result of this change	Small Companies	Large Companies
	%	%
Would be a major problem for firm	17	32
Would be a minor problem for firm	18	28
Would have little or no effect	60	32
Would have little or no effect because have similar policy now	5	8
<b>Total</b>	<b>100</b>	<b>100</b>

*Small Businesses More Affected by Shortening the Regular Work Week*

Present legislation defines the regular work week as 44 hours, with overtime rates payable for any hours worked in excess of 44. The Task Force proposed lowering the hours of regular work to 40 hours per week. While most firms interviewed reported that they would simply adjust and pay overtime according to the changed regulations, a greater percentage of small companies than larger companies reported that they would reduce overtime hours due to the changed regulations.

**Table 3.3<sup>3</sup>**      *Business Owners' Response to Lowering the Overtime  
Threshold to 40 Hours Per Week, Ontario, 1987*

Predicted course of action	Small Companies	Large Companies
	%	%
Pay according to changed rules	51	62
Pay that/better than that now	7	18
Reduce overtime and hire more workers	13	10
Reduce overtime hours	14	3
Disregard the law	3	2
Company not covered by this ruling	5	2
Miscellaneous	7	3
<b>Total</b>	<b>100</b>	<b>100</b>

<sup>2</sup> *Ibid.*

<sup>3</sup> *Ibid.*

In lieu of defining what constitutes a normal work week, the Task Force recommended a different proposal to discourage overtime: setting the maximum number of overtime hours per year at 250 hours. Neither large nor small businesses in the study viewed this proposal as an improvement over the present legislation. Most of the firms interviewed (64% of small businesses and 57% of large businesses) indicated that the proposal would make no difference to their firms.

**Table 3.4<sup>4</sup>** *Business Owners' Response to Limiting Overtime to 250 Hours Per Year, Ontario, 1987*

Predicted result of this change	Small Companies	Large Companies
	%	%
Would work better than present system	7	15
Would make no difference	64	57
Would not work as well	29	28
<b>Total</b>	<b>100</b>	<b>100</b>

*Increasing Paid Vacation a Greater Problem for Small Businesses*

The Task Force recommended that employees with 5 or more years of service be entitled to at least 3 weeks of paid vacation per year. This proposal caused few problems for larger businesses because the majority of them already have such a policy. However, 34% of small firms saw this policy as a problem for them.

**Table 3.5<sup>5</sup>** *Business Owners' Response to Proposed 3-Week Paid Vacation After 5 Years, Ontario, 1987*

Predicted result of this change	Small Companies	Large Companies
	%	%
Would be a major problem for firm	13	5
Would be a minor problem for firm	21	3
Would have little or no effect	27	10
Would have little or no effect because have similar policy now	39	82
<b>Total</b>	<b>100</b>	<b>100</b>

<sup>4</sup> *Ibid.*

<sup>5</sup> *Ibid.*



### *Small Businesses Need Greater Flexibility*

If small businesses have difficulty with suggestions that would prevent or discourage the use of overtime, it is reasonable to ask what purposes are served by overtime work at present. The study asked an open-ended question of the interviewed firms to find out why they used overtime to increase production, rather than some other means, such as: increasing staff, buying additional equipment, adding another shift, and so on.

Both small and large companies gave a variety of responses, with the predominant answer from both relating to customer demand. Though more small businesses than larger ones cite meeting schedules as a reason for using overtime, the most striking aspect is the overall similarity of responses from both large and small businesses. If there are differences in the way overtime usage affects small and large businesses, the differences lie not in *why* overtime is used, but in *the consequences* for different-sized firms if the amount of allowable overtime is restricted.

### *The Debate Continues*

In April 1988, the Task Force delivered the second phase of its report, recommending new standards for the length of the regular work week and for the maximum amount of overtime for agricultural workers, domestics, truck drivers and construction workers - groups previously excepted from the *Employment Standards Act*. Like Phase One, Phase Two seeks to balance the rights of the fully employed to be paid a premium for overtime and to refuse overtime work without jeopardizing their jobs with the employers' need for the flexibility of overtime. Whether the government adopts the Task Force proposals and whether the recommendations will balance the competing interests without introducing hardships, especially for small businesses, still remains to be seen.

### **Employment Standards in Small Firms**

To clarify small business concerns about changes to the *Employment Standards Act*, Small Business Advocacy commissioned a study to interview by telephone a sample of 307 small Ontario businesses and a control group of 25 larger firms.<sup>6</sup>

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<sup>6</sup> Source: *Employment Standards in Small Firms in Ontario*, Small Business Advocacy Report No. 28, March 1988. Prepared by Urban Dimensions Group, Inc.

#### *Compensation*

Among the smallest of small businesses interviewed (those with fewer than 9 employees), 6.8% had at least some employees who earned the minimum wage. As establishment size increased, the propensity to employ minimum-wage-earners declined and the proportion of employees earning higher hourly wages increased.

Most small businesses did not attempt to recruit employees at the minimum wage; however, 5.9% reported that it was easy or very easy to do so, while 7.8% reported that it was difficult or very difficult.

Over 70% of the small businesses felt that an increase in the minimum wage would have no effect on employment levels in various parts of their workforce (e.g. fulltime, part-time) or their ability to compete effectively.

The most important factor in the wage setting practices of all the businesses interviewed was the individual merit of the employee. This factor was selected by 69.1% of the small businesses and 76.7% of the control group. The larger, control group firms placed more emphasis on collective bargaining (44.0% vs. 13.7% of the small firms) in their wage setting practices. The control group firms also placed more emphasis on all other wage setting factors with the exception of "ability to pay" - this is a factor for 46.9% of small businesses compared to 40.0% of control group firms.

#### *Training*

Of the small businesses interviewed, 44.6% spent less than \$200 a year on the training and development of minimum and low wage employees.

#### *Benefits*

Over 50% of the small businesses interviewed offered such benefits as group life insurance, vision care, hearing or dental plan, short-term sickness plan, and bereavement or compassionate leave. Less than 50% offered such benefits as company-paid OHIP (in full or in part), pension plan, paid maternity leave, and long term income protection.

#### *Vacations and Leaves*

According to the *Employment Standards Act*, employers must provide their employees with 2 weeks of vacation after 1 year of service. 81.1% of the small businesses interviewed did so. As well, 69.7% reported that an increase in required vacation time from 2 to 3 weeks would have no effect.

on the size of their workforce, and 66.1% thought that it would have no effect on their ability to compete effectively.

Control group firms were more likely than small businesses to offer 3 or more weeks vacation after 1 year (20.0% vs. 8.5%), and after 5 years (76.0% vs. 58.0%).

The *Act* also requires employers to entitle employees to 7 public holidays per year with pay. Nearly half (48.3%) the small businesses interviewed provided employees with more than 10 public holidays in a calendar year.

Seventeen weeks of unpaid pregnancy leave (the length of time required by the *Act*) was provided by 68.4% of the small businesses interviewed. 9.8% of them filled pregnancy leave vacancies with new permanent employees. Increasing pregnancy leave from 4 to 6 months would increase the likelihood (by about 3 times) of employers filling pregnancy leave vacancies with new permanent employees. Control group firms were less likely to leave a pregnancy leave vacancy unfilled (8.0% vs. 17.3%).

Less than 20% of small businesses interviewed felt that changes in vacation time, public holidays, overtime pay, unpaid pregnancy leave and hours of work would have a high impact on their ability to compete effectively.

A higher proportion of control group firms expected greater impact from changes in vacation time, public holidays, overtime pay, unpaid pregnancy leave, and hours of work. Overtime pay was of greatest concern: 56.0% of control group firms vs. 19.2% of small businesses expected a high impact. Hours of work came next in importance, with 40.0% of the control group expecting a high impact vs. 19.2% of small businesses.

### *Subcontracting and Contracting Out*

Three-quarters of the small businesses interviewed did not receive subcontracting work from other firms. Of those which did, only 6.2% received 50% or more of their business from subcontracting. 56.0% did not contract out work to other firms. Those which did so principally to meet excess demand or compensate for lack of skills or expertise in their workforce. A significant number of small businesses expected significant workforce or competitive impacts from government policy that might reduce their ability to operate as subcontractors or to contract out.

#### *Retirement Policies*

Over 80% of small businesses interviewed did not have a mandatory retirement policy. Only 4.6% expected workforce problems if mandatory retirement were eliminated. Control group firms were more likely to have mandatory retirement policies (24.0% vs. 15.0% of small businesses) and were somewhat more likely to expect workforce problems if they could no longer enforce mandatory retirement.

#### **Payroll Taxes**

The term "payroll taxes" refers to amounts collected by governments from businesses on the basis of the wages the businesses pay to employees. Payroll taxes are source deductions, such as workers' compensation, unemployment insurance premiums and Canada Pension Plan contributions. Employers are legally bound to remit these taxes to the respective level of government.

The burden of payroll taxes affects all businesses, large and small. However, the effect upon small businesses is especially critical as it places a greater burden upon the segment of employers which creates the greatest number of new jobs each year. A policy which makes job creation more difficult increases the proportional burden of payroll taxes upon the remaining jobs.

Payroll taxes in Ontario per small business employee have doubled in the seven years from 1981 to 1988: from \$904 per employee in 1981 to \$1,871 in 1988. All payroll taxes have increased: in the 1981 to 1988 period, unemployment insurance premiums increased by an average of 9.2%, Canada Pension Plan premiums by an average of 6.7%, and workers' compensation premiums by 15.7%.

Payroll taxes are an ever-increasing portion of total payroll costs. In 1981, payroll taxes in Ontario for small businesses were 6.38% of the average small business total payroll. In 1988, that figure rose to 9.31%. The largest increase was in workers' compensation premiums, which rose from 2.06% of payroll in 1981 to 4.02% in 1988.<sup>7</sup>

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<sup>7</sup> Source: Small Business Branch unpublished data.

Table 3.6<sup>8</sup>

*Small Business Payroll Taxes per Employee,  
Ontario, 1981-1988*

	1981	1982	1983	1984	1985	1986	1987	1988
	\$							
U.I.	357	355	523	547	585	607	630	661
C.P.P.	255	276	292	306	320	332	364	402
W.C.B.	292	350	412	469	544	647	732	808
Total	904	981	1227	1322	1449	1586	1726	1871

Chart 3.1<sup>9</sup>

*Small Business Payroll Taxes per Employee,  
Ontario, 1981-1988*

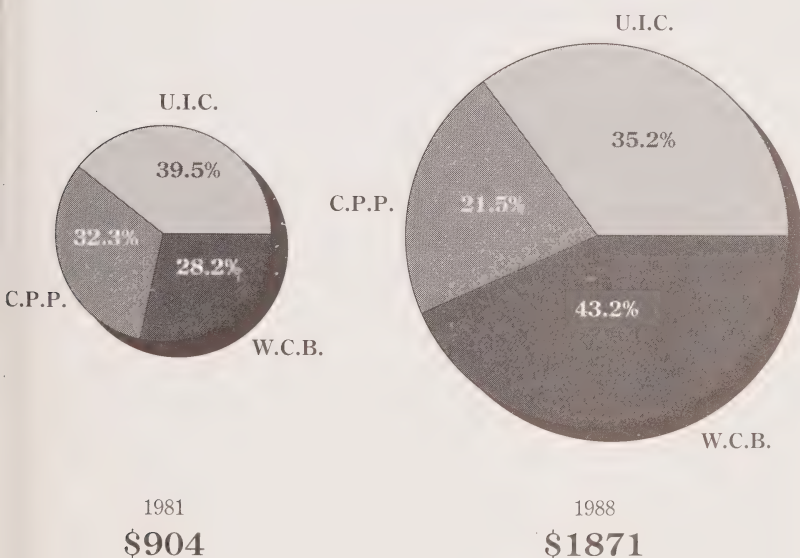
<sup>8</sup> *Ibid.*<sup>9</sup> *Ibid.*



Table 3.7<sup>10</sup>*Annual Percentage Increase in Small Business Payroll Taxes, Ontario, 1981-1988*

	Unemployment Insurance %	Canada Pension Plan %	Workers' Compensation %
1981-1982	-6	8.2	19.9
1982-1983	47.3	8.2	17.7
1983-1984	4.6	4.8	13.8
1984-1985	7.0	4.6	16.0
1985-1986	3.8	3.8	18.9
1986-1987	3.8	9.6	13.1
1987-1988	4.9	10.4	10.4
Average 1981-1988	9.2	6.7	15.7

**Workers' Compensation**

Funds collected from the province's employers pay for the workers' compensation scheme. It is a government-run insurance plan to provide compensation, health care, and vocational rehabilitation to Ontario employees who suffer injuries related to their work. As with other "payroll taxes," both the proportional amount of the taxes and the administrative burden of accounting and reporting fall more heavily on smaller businesses than larger ones.

In the period between 1975 and 1986, cash requirements per worker covered increased, in inflation-adjusted dollars, by about 50% per worker in benefits and about 64% per worker in administrative and other costs. The average assessment rate for employers, as a percentage of labour dollars, doubled. As a percentage of total benefits paid, administrative costs rose from 14% to 18%. Cash benefits paid, as a percentage of assessable payroll, increased from close to 1% to close to 1.7%.<sup>11</sup>

According to a study commissioned by the Canadian Federation of Independent Business,<sup>12</sup> the escalation of workers' compensation premiums can be traced to two recent developments: (1) the costs of providing current benefits under the program have risen dramatically; and (2) the unfunded liabilities relating to possible future claims have greatly increased.

<sup>10</sup> *Ibid.*<sup>11</sup> Source: *Workers' Compensation in Ontario: A Study of the Costs, Impacts and Strategies for Responsible Control*. Canadian Federation of Independent Business, 1987.<sup>12</sup> *Ibid.*



- (1) Three significant changes have affected the current cost of the program:
1. The average number of days following an injury before workers return to their jobs has increased from 44 days in 1976 to 56 days in 1986.
  2. The likelihood of an injured worker receiving a permanent partial disability pension has increased. Combined with pension benefits indexed to inflation and longer-lived pensioners, the cash requirements of current pension payments have increased significantly.
  3. The Workers' Compensation Appeals Tribunal, created in 1985, is responsible for protecting workers' rights under the *Workers' Compensation Act*, but it is not responsible for ensuring that any particular level of expenditure is maintained by the Board. A successful appeal to the Tribunal naturally results in a higher award for the injured worker. The number of appeals granted in whole or in part, as a percentage of the total number of appealed decisions, increased from 27% in 1978 to nearly 50% in 1986.
- 2) The unfunded liability is an actuarial projection of future cash requirements for compensation benefits which are not provided for by the current level of assessments. The continually increasing unfunded liability thus becomes a disproportionate burden on future employers.



# 4 The Dynamics of Growth

## Introduction

Although Ontario's small businesses have scored significant successes in recent years, there is some concern about their ability to grow into medium-sized companies.

- Ontario's Ministry of Industry, Trade and Technology (MITT) reports that of Canadian firms employing fewer than 20 people in 1974, only 3% had grown to employ over 20 people by 1982. In addition, only 0.15% grew to over 100 employees during the same period.<sup>1</sup>
- The shortage of indigenous world class export-oriented firms outside the resource-based sector has been identified as a major structural weakness in the provincial economy, linked to the absence of a larger group of mid-size "threshold firms" with some experience in export markets.<sup>2</sup>

What are the obstacles preventing Ontario's small businesses from evolving into medium-sized and then threshold companies? What are the implications of these factors for the long-term health of the provincial economy? The answer involves looking at both the past history of Ontario business and the increasing globalization of business in today's world.

Historically, Ontario's traditionally strong economy has resulted from several factors: strong demand for resources, such as minerals and wood products; availability of inexpensive hydro power allowing the development of successful primary processing of resources into exportable products, such as newsprint, which could compete in foreign markets mainly on price; encouragement of secondary manufacturing by protective tariffs.

A 1987 MITT study estimated the effective tariff protection of the industries most significantly involved in government procurement of manufactured goods in Ontario and compared it to the effective rates charged by the U.S. on the same products. The results, as shown in

<sup>1</sup> Source: MITT Small Business Branch.

<sup>2</sup> Source: *Competing in the New Global Economy*, Report of the Premier's Council, vol. 1 (1988).

Table 4.1, indicate that U.S. rates are consistently much lower.

**Table 4.1<sup>3</sup>** *Tariffs on Total Government Procurement Expenditures, Ontario, 1984 (est.)*

		Estimated percentage of expenditure constituting U.S. and Canadian tariffs for selected industries*	
SIC Code	Name of Industry	1984 CANADA Duty (est.)	1984 U.S. Duty (est.)
		%	%
286	Printing & Publishing	14.9	0.3
315	Misc. Machinery & Equipment	12.0	3.5
291	Iron & Steel Mills	9.1	2.7
336	Electrical Industrial Equipment	12.9	3.1
321	Aircraft & Aircraft Parts	14.5	0.0
391	Scientific & Professional Equipment	9.7	3.2
378	Industrial Chemicals	10.0	5.2
335	Communications Equipment	13.1	5.8
355	Ready-Mix Concrete	12.5	0.9
338	Electric Wire & Cable	13.1	3.1
309	Misc. Metal Fabricating	13.9	2.3
302	Fab. Structural Metal	12.8	2.3
379	Misc. Chemical Industries	12.7	1.4
374	Pharmaceuticals & Medicines	11.0	1.4
304	Metal Stamp., Press. & Coating	13.7	2.3
318	Office & Store Machinery	5.6	3.6
339	Misc. Electrical Products	13.9	3.6
165	Plastic Fabricating (NES)	15.1	1.4
354	Concrete Products	11.3	0.9
326	Railroad Rolling Stock	14.5	6.5
327	Shipbuilding & Repair	19.0	1.9
301	Boiler & Plate Works	13.0	2.3
<b>Average Duty:</b>		<b>12.7</b>	<b>2.6</b>

\*industries which in total accounted for 57% of government procurement expenditures.

As the world economy changes, many developing countries are now able to produce resource commodity products more cheaply than Canada; in some cases, they are also closer to the major emerging markets.

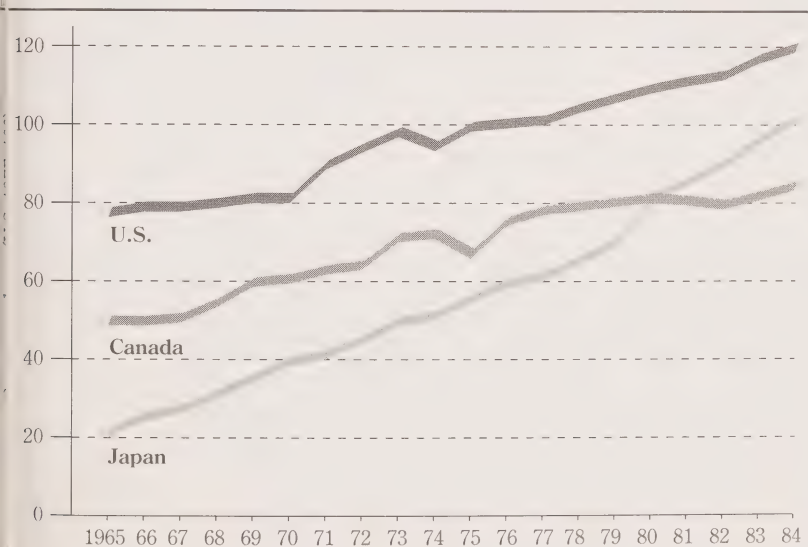
<sup>3</sup> Source: Statistics Canada and MITT.

able to benefit from reduced shipping costs. Protective trade tariffs have been falling under successive GATT rounds; this process will be accelerated with our major trading partner through the Free Trade Agreement (FTA).

Indigenous companies have also been protected during the last decade by Canada's policy of currency devaluation. The policy has mitigated uncompetitive productivity levels in many major industries.

Many Canadian-owned businesses serve only the domestic market, considering exporting too risky or too much trouble for the expected returns. Lack of export success can also be a manifestation of non-competitive (compared to those of potential export markets) production costs. Chart 4.1 plots productivity, measured in output per hour, in Canada, the U.S. and Japan from 1965 to 1984. Canadian industry may be relying both tariff protection (averaging 10-15%) and currency devaluation (some 20%) to make up for a productivity lag of over 25% (1985) relative to the U.S.

**Chart 4.1<sup>4</sup>** *Output per Hour in Manufacturing, United States, Canada and Japan, 1965-1984*



<sup>4</sup> Source: D.J. Daly & D.C. MacCharles, *Focus on Real Wage Unemployment*. Vancouver: Fraser Institute, 1986.

Success in the new economic environment is predicated on ability to compete in an international market and produce products which can command a price premium over commodity-type products: products with high value-added activities of research, design, development, engineering and marketing as well as a significant portion of the actual manufacturing conducted in Canada. Ontario's development of indigenous intellectual and business resources to complement its traditional strengths in natural resources can afford small business the opportunity to be an important source of new ideas and technologies and a nursery for companies capable of growing into internationally-competitive firms.

### **The Challenge of Growth for Small Businesses**

#### *Non-Financial Obstacles*

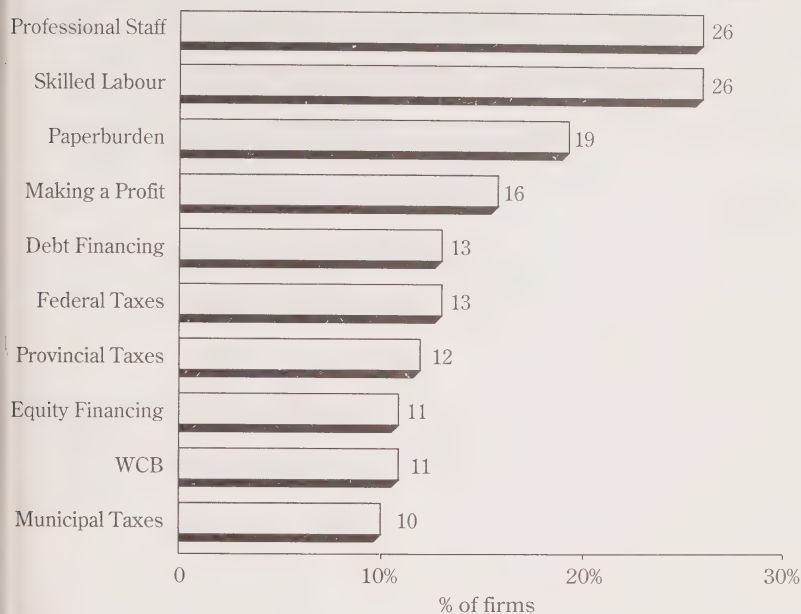
The major obstacles to growth reported by small businesses in Ontario are identified in Chart 4.2. Foremost are 1) a shortage of skilled workers and 2) paperburden caused by the government regulatory environment. The former is unsurprising in the current, tight labour market in parts of Ontario. The latter costs small businesses between 7.5 and 10 hours per month - a significant burden if the personal attention of the owner/entrepreneur is required.



Chart 4.2<sup>5</sup>

*Major Problems Rated by Small Businesses  
in Ontario, 1988*

Percentage of small businesses selecting each factor



### *Financial Constraints*

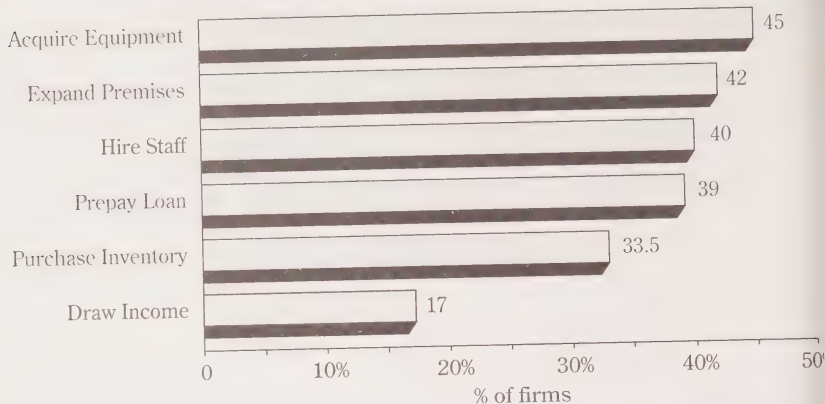
Although financial constraints were not ranked in the top two, in the aggregate, financial constraints are a major obstacle to growth. Research demonstrates that firms with under \$5 million in assets experience high debt-equity ratios and often suffer from chronic cash shortages, even though their day-to-day operations may be successful.<sup>6</sup>

The impact of the shortage of capital on small firms is reflected in entrepreneurs' allocations of an additional \$25,000 in equity, if it were available. Their responses in 1985, summarized in Chart 4.3, indicate that most would apply new equity to productive assets which would facilitate the firm's expansion.

<sup>5</sup> Source: *Newly-Formed Small Businesses in Ontario, 1985-87*, Small Business Advocacy Report No. 27, August 1988. Prepared by Laventhol & Horwath.

<sup>6</sup> Source: *Information Base on the Ontario Corporate Sector*, Ontario Development Corporation, 1988.

**Chart 4.3<sup>7</sup>** *How Additional Equity Would Be Used in New Firms, Ontario, 1985*



Newly-formed businesses, asked a similar question in 1988 about an extra \$100,000 investment, were strikingly similar in their replies: "purchase or lease equipment", chosen by 42% of respondents, ranked first, followed by "expand space", selected by 39%. In a three-way tie for third spot were training staff, hiring staff and paying down loans.<sup>8</sup>

### *Management Constraints*

Another major obstacle to growth is the transition in management skills required by a growing firm. The skills demonstrated by the entrepreneur during the start-up of a small business - creativity, flexibility and risk taking - are very different from the planning, organizing, staffing and controlling skills necessary to manage a growing business. It is an exceptional individual who possesses the skills and temperament to excel at both launching and managing a growing concern.

The challenge of delegating tasks, authority and responsibilities to employees is often the point where the new venture runs into trouble. Even if willing to delegate, many proprietors are finding it difficult to find qualified individuals to manage the firm.

<sup>7</sup> Source: *Entrepreneurship and Small Businesses*, Small Business Advocacy Report 1, 8, May 1986.

<sup>8</sup> Source: *Newly-Formed Small Business in Ontario, 1985-87*, Small Business Advocacy Report No. 27, August 1988. Prepared by Laventhol & Horwath.

## Successful Growth Strategies

The above-noted studies focussed on the *obstacles to growth* faced by small firms. Other studies have attempted to identify the *growth strategies* employed by successful entrepreneurial ventures.

Radha Chaganti reached the following conclusions on the growth strategies employed by Canadian firms:

- Small and large business seem to be most profitable during the growth stage when the emphasis is on cost control and efficiency.
- Once a small business has reached the maturity phase, competitive pricing appears to be the only significant company strategy.
- In the declining stage, small businesses tend to spend aggressively on promotion and offer broader product lines in pursuit of relatively slim profits, while large firms pursue productivity and avoid investments.<sup>9</sup>

A recent American survey of successful, high growth entrepreneurial ventures<sup>10</sup> also sought to identify a common set of factors or strategies. The incidence of the success factors, as ranked by the firms themselves, is summarized in Table 4.2.

<sup>9</sup> Radha Chaganti, "Small Business Strategies in Different Industry Growth Environments", *Journal of Small Business Management*, vol. 25, no. 3, July 1987.

<sup>10</sup> G.E. Hills and H.P. Welsch, *High Growth Entrepreneurial Ventures: A Content Analysis to Identify Common Strategic Factors* (not yet published).

**Table 4.2<sup>11</sup>** *Incidence of Success Factors Among 150 Successful Firms, Illinois, 1988*

Factor	%
Product knowledge	96
Knowledge of the market	95
Knowledge of the industry	93
Flexibility, adaptability, responsiveness to change	88
Adaptiveness to change	82
Sticking to given mission	77
Devotion and hard work	71
Distinct competitive advantages	70
Sense of commitment to succeed or to the business	65
Aggressive marketing	65
Adequately plan	62
Responsiveness to customers	61
Clear market niche	59
Quality of product or service	55
Personal selling talent	55
State of the art equipment	54
Differentiated product or service	53
Discovery of unsatisfied needs	49
Adequate financing	39
Good reputation	38
Cost control	23
Reference to planning horizon	23
Integrity/honesty	22
Special attention to employee motivation & productivity	16
Good management and employee respect	11
Attract and retain good people	10
Stated overall strategic goal	7
Employee devotion and spirit	7
Formal business plan	1

The top end of the survey covers four groups of general success factors. The high scores attached to knowledge (of product, market and industry) and to the flexibility/adaptability factors indicate that they are

<sup>11</sup> *Ibid.*

regarded as the two most important elements in success. A third group of responses focussing on hard work and perseverance also scored high. A final group mentioned by over half the respondents contains factors relating to marketing and competition.

Of particular interest is the paradoxical result that over 60% of the respondents said they "adequately plan" while only 1% said they have a 'formal business plan'. As the researchers reported, "This is a shocking statistic given the emphasis that business school professors, bankers and venture capitalists place on business plans."

Another survey<sup>12</sup> demonstrates that selling to the public sector early in the history of a company is correlated with higher growth and sales and greater export success in later years.

### The Growth of Medium-sized and Threshold Firms

While the small business sector of the provincial economy is growing rapidly, medium-sized companies are not. During the period 1974 through 1982, small business units created 62% of the net new jobs in the province; medium-sized firms showed a net reduction in employment of 3%.<sup>13</sup> A recent report by the Ontario Development Corporation concluded that medium-sized firms experience the same financial problems as those endured by small firms, including:

- a consistently weak liquidity position;
- a consistently high debt load;
- relatively low long-term debt with higher debt loads for the most recent year.<sup>14</sup>

Medium-sized firms have enjoyed consistent profitability, but their growth potential is limited by a shortage of capital for expansion. The capital shortage and high debt load also makes them particularly vulnerable if a product fails or the economy takes a downturn.

The Premier's Council Report<sup>15</sup> defines a threshold firm as a medium-sized business with annual sales of \$40-400 million in a sector representing both growth opportunities and significant export potential. A threshold firm is poised to become an indigenous, multinational firm

<sup>12</sup> J. Doutriaux, *Government Procurement and Research Contracts at Start-Up and Success of Canadian High-Tech Entrepreneurial Firms*, University of Ottawa, April 1988.

<sup>13</sup> Source: *Information Base on the Ontario Corporate Sector*, Ontario Development Corporation, 1988.

<sup>14</sup> *Ibid.*

<sup>15</sup> *Competing in the New Global Economy*, vol. 1 (1988).

and a dominant player in its sector.

The Premier's Council estimates that there are about 40-50 such firms in Ontario today. An earlier study by Steed,<sup>16</sup> using a broader definition, put the number of Ontario threshold companies at 86.

The move from successful threshold company to indigenous multinational is not without danger. In the past, some Ontario firms have foundered at this transition point.

In Canada, in comparison to the U.S., the domestic market is not large and there is not as much industrial R&D being financed by defence contracts - two factors which have traditionally helped nurture threshold firms into multinationals.

Typically, it takes all of the firm's financial and manpower resources to launch a new ground-breaking product: the entrepreneur is forced to "bet the company". If the new product fails or its market fails to materialize, then the future of the company is often at risk. Unlike large multinationals, threshold companies may not have the financial resources to weather a bad product and may be taken over by foreign interests (e.g., Mitel) as a result of the failure of follow-on products in the market.

Successful threshold firms are a favorite target for acquisition by foreign (and even some Canadian) multinationals looking for easy growth - although some studies show that foreign-owned mid-sized firms are repatriated at a similar rate.<sup>17</sup>

### Is Growth Worth It?

Considering the many obstacles to growth, one may ask from a business owner's perspective if growth is necessary or worth the effort.

Growth is a survival and success strategy. By striving for growth, the company will often maximize its chances of survival through the beneficial effects of the intense planning and goalsetting necessary to gain an increasing market share. A growing company can make more effective use of the equity markets. The transition from small to medium-sized business carries with it the potential to penetrate foreign markets which provides a further opportunity for growth. The difficulties encountered in managing growth should be considered in light of the benefits which accrue to an evolving business.

The idea of growing into a medium-sized or threshold business will appeal to many small business owners. However, many small businesses

<sup>16</sup> Steed, *Threshold Firms*, Science Council of Canada (1982).

<sup>17</sup> Source: *Information Base on the Ontario Corporate Sector*, Ontario Development Corporation, 1988.



are not positioned in a high growth sector of the economy; others may not survive to become a threshold firm. The small business community will need to ensure that shifts in government focus do not adversely affect resources which are presently available to it.

If Ontario is successful in developing more threshold firms, we may see a "community effect" where a geographical clustering of spin-off firms develops in specific industries and areas - a "Silicon Valley North". These clusters, charged with entrepreneurial excitement, will further fuel the expansion of new businesses in the community and attract workers, capital and dealmakers to the scene. If these hi tech enclaves can be "aimed" at areas remote from Toronto, they could become an important resource in the geo-economic restructuring of the province.



# 5 Opportunities for Growth I: Hi Tech

## Scope of High Technology in the Workplace

Although a more descriptive term might be *advanced manufacturing technologies*, to contrast with the *traditional manufacturing technologies* presently used by most industries, the term "high technology" or "hi tech" generally refers to advanced techniques in design, engineering and production rather than to the revolution in paper, payroll, and inventory handling made possible by the computer.

Use of the term "hi tech" frequently obscures the fact that high technology products can be created with low technology production methods, while low technology goods can be produced with high technology methods.

Hi tech *products* - items at the cutting edge of technology - are characterized by high value added - the innovative thought and planning that goes into their creation. They are in the rapid growth phase of the product life cycle, with potential for high market share, profit margins and export opportunities. Examples include the Spar shuttle manipulator arm and Northern Telecom's digital telephone switches.

High technology production *methods* - the use of advanced automated techniques to manufacture products, whether the products themselves are low tech or hi tech - are referred to as CIM (Computer Integrated Manufacturing) or AMS (Automated Manufacturing Systems).

In Canada, the large multinational firms have usually been the first to adopt these production methods. The unquestioned leaders have been the Ontario auto makers and parts producers. They possess almost 70% of the advanced installations and industrial robots in Canada. Much of their automation thrust has resulted from their ties to their multinational parents.

In general, small and medium-sized enterprises (SMEs) in Ontario have been slower to adopt these new technologies, but SMEs which supply the large auto makers have started to use these techniques through technological diffusion, triggered by the quality and delivery needs of the auto plants they supply. This trend is particularly evident in the growth of Just-in-Time (JIT) production and delivery methods and in electronic interplant communication technologies.

A recent study by Statistics Canada<sup>1</sup> surveyed the overall penetration of new advanced technologies in the Canadian manufacturing sector. The survey encompassed firms which represented 51% of Canadian manufacturing shipments in 1986. It weighted each positive response by the value of 1986 shipments from the firm. Thus, even if only one item in 1986 was produced through the advanced technology, all shipments from the firm during the year were considered to have been so produced. As a result, the survey may overestimate real use.

Chart 5.1, a plot of the usage of 18 advanced subtechnologies by the surveyed industries in Ontario, indicates a penetration of under 20% of firms in most areas. The most prevalent technologies are programmable controllers, industrial computers, computer-based sensors and testing, and local area networks. The least-used technologies are laser-based fabrication equipment, automated storage and retrieval systems and automated guided vehicles.

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<sup>1</sup> Statistics Canada, *Survey of Manufacturing Technology*, June 1987. The advanced production technologies surveyed are:

### **Design/Engineering Technology**

CAD	computer-aided design, including computer-aided engineering (CAE);
CAM	CAD output to control manufacturing machines (CAD/CAM);
CPR	digital data representation of CAD output used in procurement activities;

### **Fabrication/Assembly Technology**

CNC	stand alone numerical control machines;
FMC	flexible manufacturing cells;
FMS	flexible manufacturing systems;
LSR	laser-based fabrication equipment;
PIC	pick and place robots;
ROB	complex robots;

### **Automated Materials Handling Technology**

AS	automated storage and retrieval systems;
AGV	automated guided vehicle system;

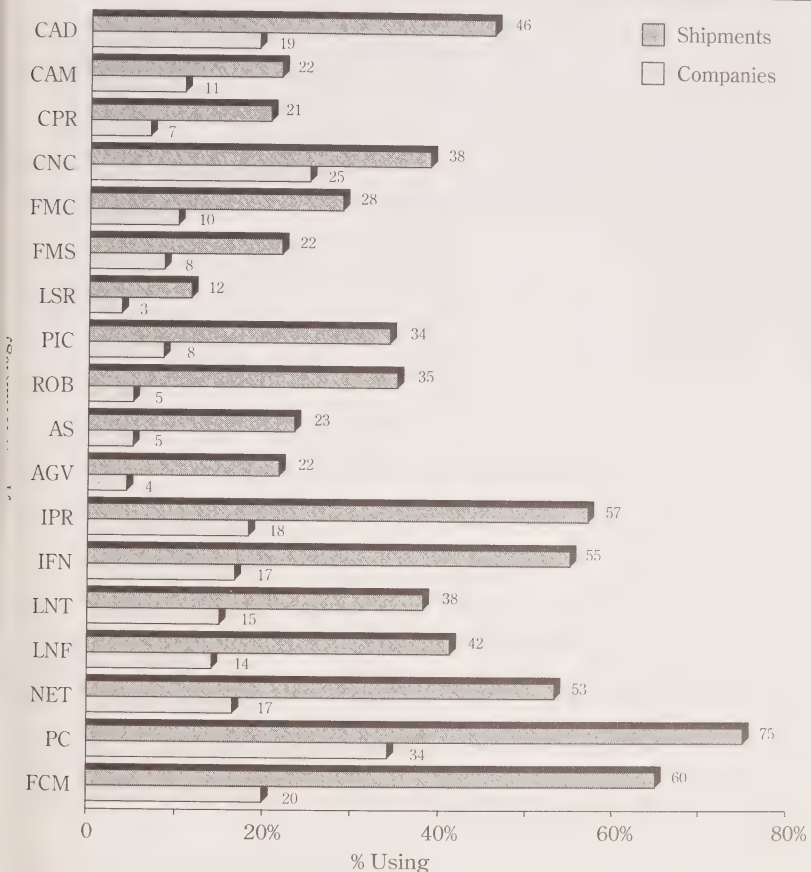
### **Computer Inspection/Testing Technology**

IPR	inspection performed in process;
IFN	inspection performed on the final product;

### **Communication/Control Technology**

LNT	Local Area Network (LAN) for technical data;
LNF	LAN for factory use;
NET	intercompany network linking plant to suppliers/customers;
PC	programmable controllers;
FCM	industrial computers used for control on the factory floor.

**Chart 5.1<sup>2</sup>** *Use of Individual Technologies in the Manufacturing Sector, Ontario, 1987*



### The Status of Small Business in the High Technology Market

In a 1988 survey of mostly Ontario firms, the Research Centre for Management of New Technology (REMAT) identified 10 technologies, 7 of which correspond to those measured in the Statistics Canada survey. Although the REMAT survey was not as general as the Statistics Canada survey and is dominated by a high proportion of respondent metal

<sup>2</sup> *Ibid.*

working firms, it does permit a comparison of the use of technology in small and large firms (see Chart 5.2).<sup>3</sup>

Not unexpectedly, small business lags large business in almost all areas. The differential is lowest in the area of numerical and computer numerical control machines, where small business has a technology penetration of about 60% of that of large companies. The differential is highest in those technologies which require the integration of several subtechnologies, such as flexible manufacturing systems, automated materials handling and group technology.

A rather surprising result is the low use (23%) by small business of computer-aided design (CAD), which can be a very cost-effective and time-saving method of product design, and for which the prices of equipment and software have rapidly decreased. In the newly emerging field of artificial intelligence (AI), there has not yet developed any discernible difference between small and large business.

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<sup>3</sup> Source: *REMAT First Draft: Annual Technology Survey, 1987-88*. Research Centre for Management of New Technology, Wilfrid Laurier University, April 1988.

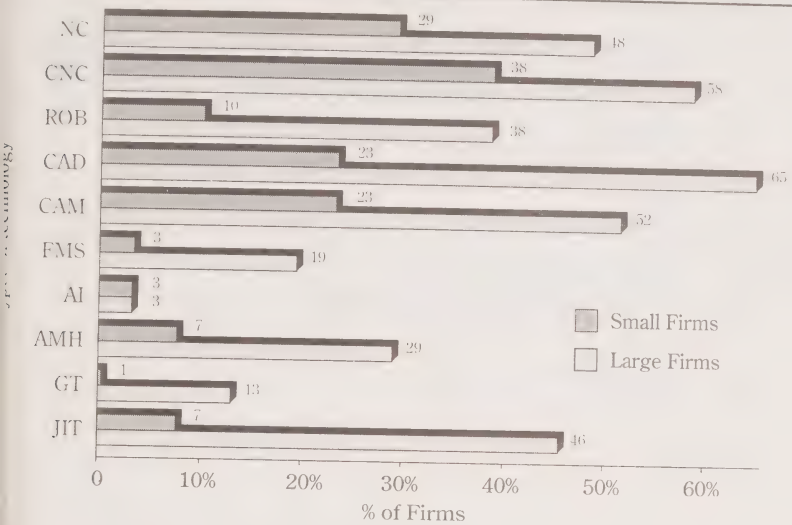
REMAT's survey questionnaire was sent to 778 firms, mostly within Southwestern Ontario, and elicited a 44.3% response rate. 45% of the respondents were metal fabricating firms; another 14% were in electrical products, and 10% were machinery firms.

The 7 technologies polled which correspond to the StatsCan survey were: NC, CNC, ROB, CAD, CAM, FMS, and AS/AGV (called AMH in REMAT's survey). The additional 3 technologies polled were: Artificial Intelligence (AI), Group Technology (GT), and Just-in-Time methods (JIT).



Chart 5.2<sup>1</sup>

*Use of Advanced Manufacturing Technologies  
in Small and Large Firms, \* Ontario, 1988*



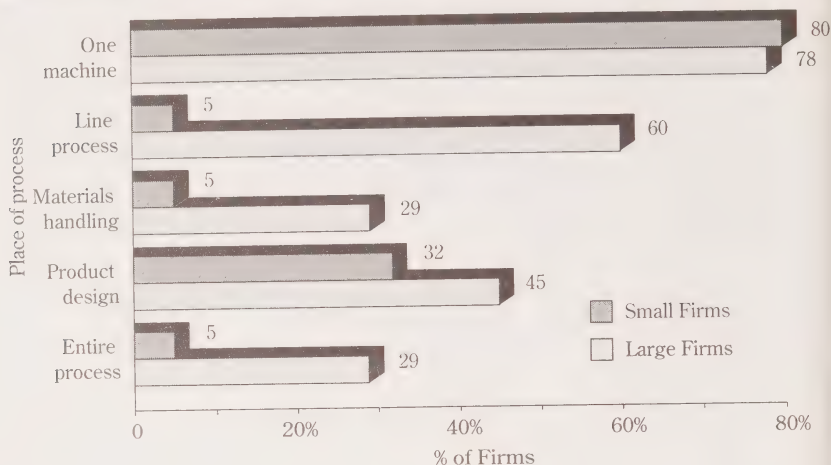
\*Small firms are those with fewer than 50 employees. Large firms have more than 250 employees.

Chart 5.3 compares the site of use of advanced technologies in small and large businesses. Small business has concentrated on single machine technology; large business has integrated technologies into line processes, materials handling and the entire manufacturing process. Even large business has made less use of product design technologies (4%) than its ownership of CAD systems (65%) would indicate.

<sup>1</sup> Ibid.

Chart 5.3<sup>5</sup>

*Site of Automation in Small and Large Firms,\*  
Ontario, 1988*



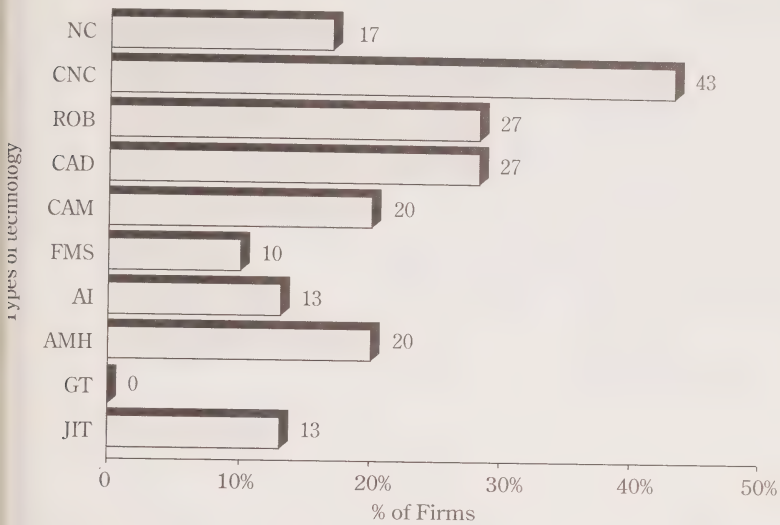
\*Small firms are those with fewer than 50 employees. Large firms have more than 250 employees.

The survey asked about technology investment plans over the next 5 years. As Chart 5.4 shows, small firms plan to add more computer numerical control machines, CAD systems and robots. While the integrated technologies will grow to some extent, small business appears to be planning to continue to rely on islands of automation in the near future.

Integrated technologies like flexible manufacturing - one of the cornerstones of advanced manufacturing techniques - enable companies with short production runs to produce multiple products interchangeably on the same line, resulting in economies of scale. The installation of these technologies would enable small firms to compete with larger hard wired production line plants in foreign countries which depend on long production runs for economies of scale.

<sup>5</sup> *Ibid.*

**Chart 5.4<sup>6</sup>** *Plans for Future Technology Investment by Small Firms,\*  
Ontario, 1988*



\*Small firms are those with fewer than 50 employees.

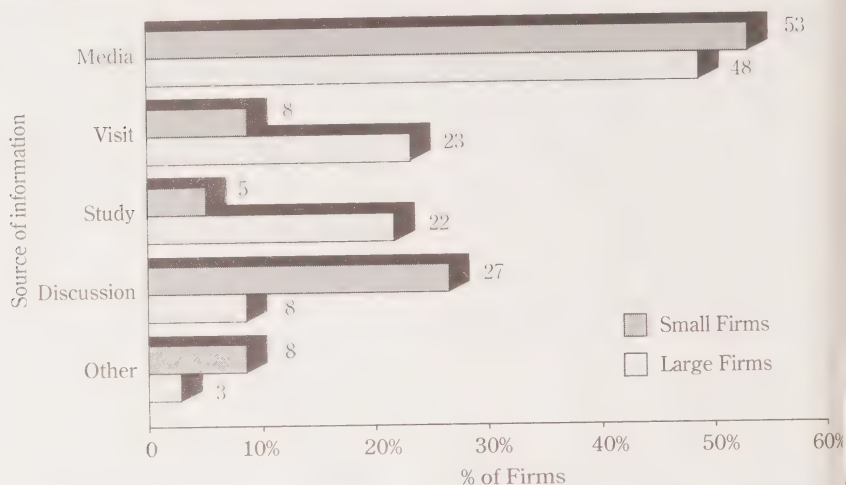
A recent study attempted to determine some of the reasons why Canadian small businesses have been slow to adopt advanced manufacturing technologies.<sup>7</sup> Chart 5.5 examines the most important sources of information on new technology relied on by small and large firms.

<sup>6</sup> *Ibid.*

<sup>7</sup> Source: R.G. Craig & H. Noori, "Recognition and Use of Automation: A Comparison Small and Large Manufacturers", *Journal of Small Business and Entrepreneurship*, vol. 3, no. 1, 1985.

This study covered two surveys carried out in 1981 and 1984. The small firms surveyed, all from Ontario, had annual sales of \$1-\$5 million. The large firms, all Canadian, had over 100 employees.

**Chart 5.5<sup>8</sup>** *Most Important Source of Information on New Technology, Small and Large Firms, Ontario, 1985*



For small firms, the two important sources are the media and discussions with other people. The media remains an important source of information for the larger firms; however, larger firms depend on visits to plants which have already installed these technologies and on their own internal studies. Large business has both better access to primary information about new technologies and the time and personnel resources to investigate and evaluate their usefulness. Similarly, Canadian subsidiaries often utilize the expertise of their parent organizations when they consider automation.

Table 5.1 compares the reasons for automation in both large and small firms. Although the importance of some factors differs between the two sizes of business, the ranking of the factors is much the same, with the major concerns being increasing cost of labour, product quality, and various competitive pressures.

<sup>8</sup> *Ibid.*

**Table 5.1<sup>9</sup>** *Reasons for Automation in Large and Small Firms, Ontario, 1985*

Reasons for Automation	Mean Score Large Firms	Mean Score Small Firms
Increasing Cost of Labour	4.49	4.07
Concern over Product Quality	4.00	4.03
Concern over Loss of Market Share	3.64	3.83
Declining Employee Productivity	3.56	3.49
Concern over Competition Automating	3.35	3.50
A Belief in Automation by Top Management	3.25	3.51
Lack of Skilled Manpower	3.04	3.39
Employees Unwilling to Perform Certain Jobs	2.86	2.80

5-Point Scale: 1 = Very Unimportant; 2 = Unimportant; 3 = Neutral;  
4 = Important; 5 = Very Important

Although availability of capital may be a major barrier to automation, there are other blocks closer to home: businesses have not found a satisfactory method of evaluating the costs and benefits of increased automation. Costs and benefits can be hard to quantify, especially if the firm has no previous experience with the technology. The value of advanced manufacturing techniques as a strategic tool needs to be evaluated over a longer time frame than is common in the North American business community.

Rather surprisingly, labour objections do not seem to be a large barrier to increased automation. Since much initial automation replaces dangerous or tedious jobs, and since the job market is presently tight, workers apparently do not feel as threatened by automation as perhaps was the case in the past.

A shortage of people trained in the technologies is clearly a barrier, particularly in small firms. It also appears that adoption of technologies is facilitated by an executive who functions as a champion or promoter of the technology; the absence of such a person in a small firm will effectively act as a barrier to automation.

In the 1988 budget, the Ontario Government announced the Technical Personnel Program to encourage small companies (20-200 employees) to hire technical personnel - engineers, technicians, technologists, scientists and computer programmers. Companies who hire technical

<sup>9</sup> *Ibid.*

staff for a 3-year period will be eligible for a series of grants worth 50% of the technical personnel's wages in the first year and 25% in the second year. The goal of the program is to give small businesses without technical staff access to professional help in mastering the complexities of modern technology.

### The Importance of Research & Development

One rich source of new hi tech companies is spin-offs from other companies which conduct research. Entrepreneurs can often exploit plans which they developed while employed at such a research company by leaving to start their own company when their employer chooses not to pursue their ideas.

A 1987 Statistics Canada survey of research spending examines the differences in R&D spending patterns between different-sized firms.<sup>10</sup> Table 5.2 and Chart 5.6 indicate that, of the 1829 companies that performed R&D, an astounding 75% had fewer than 200 employees.

**Table 5.2<sup>11</sup>** *Companies Performing R&D, by Industry and Employment Size, Canada, 1984*

Industries	Small Business 1-199 Employees	Medium Business 200-499 Employees	Large Business 500+ Employees	Total Performing R & D
	Number of Companies			
Primary	17	10	22	49
Manufacturing	719	147	209	1,075
Services	636	25	44	705
<b>Total</b>				
<b>All Industries</b>	<b>1,372</b>	<b>182</b>	<b>275</b>	<b>1,829</b>

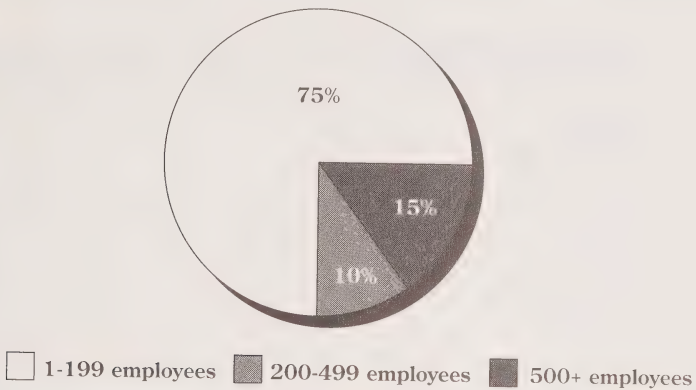
<sup>10</sup> Statistics Canada, *Industrial Research and Development and Company Size*, November 1987.

<sup>11</sup> *Ibid.*



Chart 5.6<sup>12</sup>

*Distribution of Companies Performing R&D by  
Employment Size, Canada, 1984*



Not surprisingly, however, the firms with over 500 employees dominated in terms of money spent, accounting for 76% of the actual dollar expenditures.

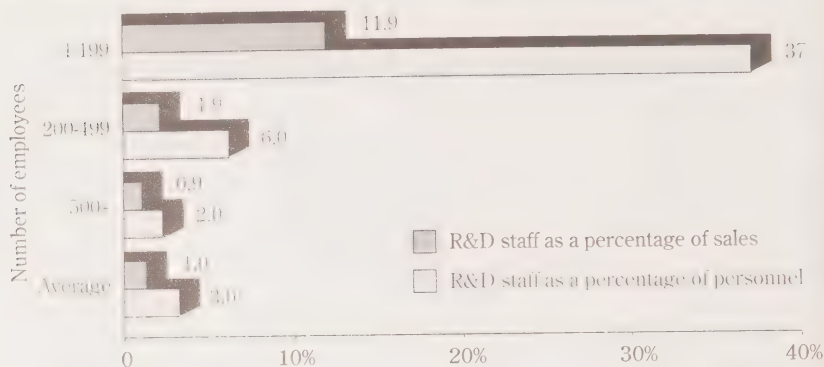
As Chart 5.7 shows, smaller companies spend a higher percentage of their internally generated funds on R&D than do larger firms, averaging about 12% for firms with fewer than 200 employees but falling to 0.9% for firms with more than 500 employees. Although some of the effect is due to the higher sales per employee in the larger firms, the high R&D trend in smaller companies is real.

As one would expect, the spending is heaviest in those sectors which have a high level and rapidly evolving technology, such as electronic equipment, business machines and drugs. Small firms in these sectors must spend heavily to stay competitive in the marketplace.

The trend continues for the ratio of R&D personnel to all employees. The smallest manufacturing firms have an average 27% of their employees engaged in R&D while the larger ones have only 3%. R&D early uses a relatively larger proportion of resources in smaller companies than in larger firms.

<sup>12</sup> *Ibid.*

**Chart 5.7<sup>13</sup>** *Average Percentage of Sales and Personnel Allocated to R&D Expenditures and Staff by Companies Performing R&D, by Employment Size, Canada, 1984*



The study also found that smaller firms rely more on R&D funding from government and other companies than do their larger counterparts. Interestingly, the foreign ownership level is only 7% in the under-50-employee firms, while it exceeds 88% in the largest firms - lending support to previous studies which found higher R&D intensity levels in Canadian-controlled firms.

Doutriaux's study of hi tech start-up firms, discussed in more detail in Chapter 6, found that there was a high correlation between first-year R&D funded by public sector contracts and tax credits, and the level of sales during the first 8 years of the company's existence. R&D funding through unsolicited proposals, grants and subsidies was not nearly as effective in predicting later success.

# 6 Opportunities for Growth II: Procurement

## Small Business and Government Purchases

Purchases by all levels of government in Canada this year are estimated to reach \$80 billion, 16% of the 1987 Gross Domestic Product of about \$509 billion.

In 1985, federal government direct purchases amounted to \$13.9 billion. The Department of Supply and Services (DSS), the federal government's main instrument of procurement, spent \$7.2 billion. A further \$1.4 billion was spent by the Department of Public Works (DPW), mainly on construction-related purchases. Other federal departments made direct purchases of \$4.6 billion without going through either DSS or DPW.<sup>1</sup>

DSS solicits most of its purchases from a list of eligible Canadian suppliers which contains approximately 10% of the registered businesses in Canada. About 50% of the listed firms are small businesses. In a typical year, small business captures at least 30% of the dollar value of purchases made through DSS. Most government contracts (88% in 1983) are under \$2 million, a size which many small businesses can handle.

In 1984, the Ontario public sector purchased nearly \$15.6 billion, including purchases made by the Province, crown corporations, municipalities, hospitals and universities. Purchasing is decentralized in the various provincial ministries.

<sup>1</sup> Source: *Overview of Canadian Federal Procurement Policies and Practices*. Trade Negotiation Office, August 1986.

<sup>2</sup> Source: *Government Procurement: A Study Team Report to the Task Force on Program Review*. Government of Canada, 1985.

Small business is quite competitive and typically wins almost 70% of Ontario government purchase orders worth some 60% of purchasing expenditure (excluding cars, gas and contracting). About 85% of suppliers sell to a single ministry, providing office equipment and furniture, and business services such as construction, consulting, courier, printing and travel services.<sup>3</sup>

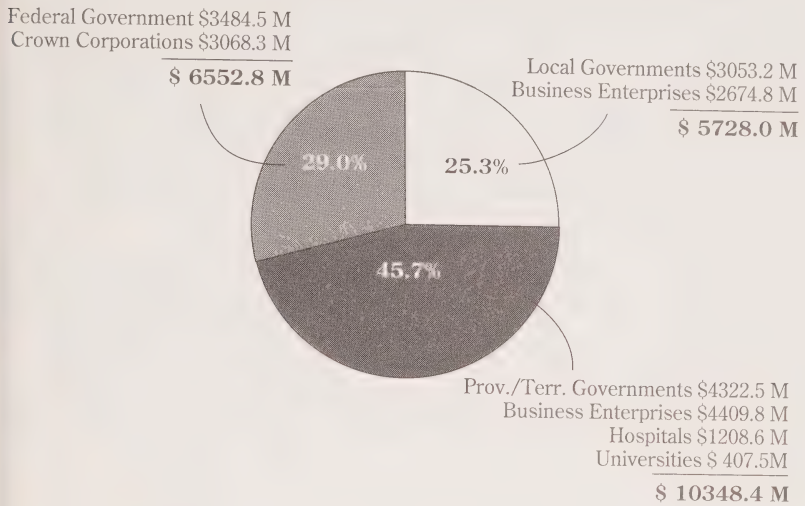
Other provincial and municipal governments also make purchases from Ontario firms. Many government contracts won by larger firms often contain subcontracting elements which are delegated to smaller firms; this practice further increases the amount of government purchases which directly benefit Ontario small businesses.

The relative importance of each level of public sector spending in the Ontario market is shown in Chart 6.1 and the distribution of expenditures by industrial sector in Chart 6.2.

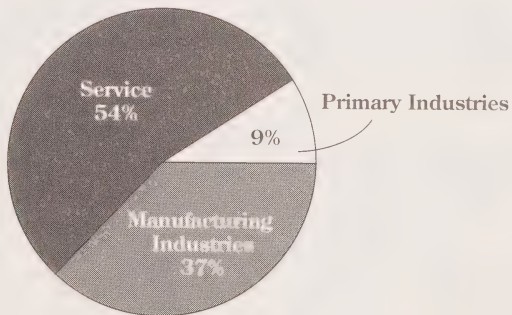
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<sup>3</sup> Source: MITT.

**Chart 6.1<sup>4</sup>** *Distribution of Public Sector Procurement Spending by Level of Government, Ontario, 1983*



**Chart 6.2<sup>5</sup>** *Distribution of Public Sector Procurement Spending by Industry, Ontario, 1983*



<sup>4</sup> Source: *The Size and Structure of the Public Sector Market*. Supply and Services Canada, 1983.

<sup>5</sup> *Ibid.*

## Government Procurement and the Growth of Start-up Firms

Jerome Doutriaux of the University of Ottawa has published some research on the effects of sales to the public sector by hi tech start-up firms.<sup>6</sup> He undertook a survey of nearly 70 manufacturing firms which started operations between 1965 and 1980. About 40 of these companies are located in Ontario, and over half of these were in the Ottawa region.<sup>7</sup>

Doutriaux tested several hypotheses about the importance of sales to the public sector during the first 8 years of operation by looking for significant positive correlation coefficients within the data.<sup>8</sup> Doutriaux found the following relationships:

- There was a significant correlation in the first year of operation between annual level of sales and level of sales (as a percentage of annual sales) to the public sector, as shown in Table 6.1. The correlation could be due to characteristics common to the firms; Doutriaux hypothesized that government sales allow a firm to grow more rapidly and thus maintain stronger sales in later years.

<sup>6</sup> Jerome Doutriaux, *Government Procurement and Research Contracts at Start-up and Success in Canadian High-Tech Entrepreneurial Firms*. University of Ottawa, April 1988.

<sup>7</sup> Other characteristics of the surveyed firms were as follows:

	Government- Oriented Firms	Non-Government- Oriented Firms	Canada	Ontario
Average number of product lines				
Year 1	.87	0.83	2.1	2.1
Year 8	2.43	2.79	7.1	5.6
Average number of service lines				
Year 1	1.00	0.88	1.0	1.0
Year 8	1.33	1.42	1.7	1.7
Number of firms in sample (Year 1)	25	40	68	38
Average age of company (years)			10.6	10.9

A correlation coefficient of 1 indicates perfect correlation, a coefficient of 0 indicates no correlation and a coefficient of -1 indicates an inverse relationship between the factors being measured.



Table 6.1<sup>9</sup>

*Correlation of Start-up Factors with  
Annual Level of Sales, Ontario and Canada, 1988*

Year of Operation	Sales to Public Sector		
	Year 1 Ontario	Year 1 Canada	Year 8 Canada
	Correlation Coefficient		
Year 1	0.14	0.23	0.40
2	0.23	0.25	0.46
3	0.19	0.25	0.41
4	0.34	0.36	0.45
5	0.29	0.32	0.38
6	0.30	0.43	0.47
7	0.40	0.49	0.55
8	0.62	0.50	0.59

<sup>9</sup> Source: Jerome Doutriaux, *Government Procurement and Research Contracts at Start-up and Success of Canadian High-Tech Entrepreneurial Firms*. University of Ottawa, April 1988.

- There was a significant correlation between annual level of sales and absolute level of sales in the first year. Thus the value, not just the proportion, of sales to the government seems important to future success.
- As shown in Table 6.2, there was a significant correlation between relative sales to the public sector and higher exports in years 6, 7 and 8. There was a negative correlation in years 1 and 2. Firms may concentrate on government contracts in the early stages of growth and use this comparative advantage to gain success later in the export market.

**Table 6.2<sup>10</sup>** *Correlation of Government Orientation with Propensity to Export, Ontario and Canada, 1988*

Percentage Share of Exports in	Sales to Public Sector		Sales to Public Sector	
	Year 1 Ontario	Year 1 Canada	Year 8 Ontario	Year 8 Canada
	Correlation Coefficient			
Year 1	-0.35	-0.12	-0.09	0.00
2	-0.34	-0.07	-0.09	0.05
3	-0.19	0.08	-0.02	0.14
4	-0.15	0.15	-0.02	0.18
5	0.11	0.10	0.00	0.09
6	0.07	0.25	0.12	0.16
7	0.20	0.36	0.31	0.29
8	0.20	0.28	0.16	0.21

- Rather surprisingly, as seen in Table 6.3, there is a lack of correlation between sales to government and the number of founders who came from either a government or university environment. Although a number of government employees leave the civil service to become private consultants, their firms apparently seldom evolve into manufacturing firms.

<sup>10</sup> *Ibid.*

**Table 6.3<sup>11</sup>** *Correlation of Characteristics of Founding Team and Government Sales, Ontario and Canada, 1988*

	Sales in Public Sector				Absolute Level of Sales			
	Year 1		Year 8		Year 1		Year 8	
	Can.	Ont.	Can.	Ont.	Can.	Ont.	Can.	Ont.
	Correlation Coefficient				Correlation Coefficient			
founders with previous experience in:								
Finance	0.31	0.19	0.22	0.12	0.21	0.15	0.21	0.09
Marketing	0.05	-0.08	0.10	-0.02	0.26	0.37	0.21	0.16
Production	-0.08	-0.15	-0.12	-0.18	0.17	0.00	0.05	-0.26
R & D	0.25	0.35	0.23	0.36	0.11	0.04	0.26	0.42
Government Contracting	0.45	0.41	0.36	0.33	0.16	0.05	0.36	0.32
previous employers								
100-500 employees	0.07		0.11		0.19		0.32	
Over 500 employees	-0.11		-0.10		-0.14		-0.08	
Government or university	0.00		0.08		-0.14	0.06	0.17	0.38

<sup>11</sup> *Ibid.*

• On the other hand, as shown in Table 6.4, the firms in the study decreased their consulting activities as time went on. Although 55% of the Ontario firms provided services in their first year, only 23% did so in year 8 as manufacturing became the dominant activity.

**Table 6.4**<sup>12</sup> *Percentage of Sales by Type of Activity/Client, Ontario and Canada, 1988*

Year of Operation	Activity/Client	Canada	Ontario
		%	%
Year 1	Manufacturing Standard Products	20.8	17.5
	Provision of Services	47.0	55.0
	Consumer Products	3.0	1.0
	Industrial Products	62.0	54.0
	Sales to Public Sector	32.0	42.0
Year 8	Manufacturing Standard Products	40.6	37.0
	Provision of Services	20.0	23.0
	Consumer Products	2.4	0.5
	Industrial Products	68.0	62.0
	Sales to Public Sector	30.0	38.0

- There was a significant correlation between the level of sales in years 1 and 8 and founders with previous experience in finance, R&D and government contracting. This is to be expected; a founder's good knowledge of the supply process would assist the firm in submitting unsolicited R&D or supply of goods proposals to government agencies.
- As seen in Table 6.5, government-oriented firms are more likely to exploit technologies and markets similar to those of their founders' former employer than are other firms, who tend to exploit complementary technologies and markets. Doutriaux hypothesizes that government-oriented firms may be more R&D-intensive and less worried about patent infringement at start-up than are non-government-oriented firms.

<sup>12</sup> *Ibid.*

Table 6.5<sup>13</sup> *Technology, Markets and Government Orientation at Start-Up, Ontario and Canada, 1988*

	Government- Oriented Firms	Non-Government- Oriented Firms	Canada	Ontario
	%	%	%	%
Similarity of start-up technology with technology of previous employer				
Similar	56	45	49	57
Complementary	16	27	23	24
Different	28	27	28	19
Similarity of start-up market with market of previous employer				
Similar	52	26	35	34
Complementary	8	28	21	24
Different	40	46	44	42

- While government-oriented firms are more successful, they do not have a larger number of product lines than non-government-oriented firms.

<sup>13</sup> *Ibid.*

- There appear to be no significant differences between government-oriented and non-government-oriented firms at start-up in terms of business plan or organization, according to Table 6.6.

**Table 6.6<sup>14</sup>**      *Organizational Set-Up and Planning by Firms  
by Orientation, Canada, 1988*

	Government-Oriented Firms	Non-Government- Oriented Firms
	%	%
Business Plan	80	76
- in Year 1	24	14
Marketing Study	72	57
- in Year 1	12	9
Responsibilities formally established		
Marketing	79	86
Finance	79	72
Engineering	84	83
Manufacturing	88	88
R & D	87	83
Personnel	62	55
Responsibilities of founders		
President*	15	10
Technical Manager	13	36
Technical Work	44	20
University or Government**	8	14
Sales	6	10
Total number of firms	25	40
Total number of founders	59	86

\* 23% for firms which had some public sector sales in year one and 8% for those who did not.

\*\* 12% for firms which had some public sector sales in year one and 10% for those who did not.

<sup>14</sup> *Ibid.*



Although this study involved hi tech start-up firms, it indicates that government procurement of goods, services and R&D can be valuable to a small firm. The added sales volume and expertise gained through public sector sales enables a young company to advance more effectively along the learning curve and make the productivity enhancements that give it later strength in both domestic and export markets.

## **Effectiveness of Government Preference Policies**

At all three levels of government have preference policies which use the procurement process to attain social, political and economic goals. These programs are usually explicit at the federal and provincial government level, and informal or voluntary at the crown corporation and municipal level.

### *Preference for Canadian Suppliers*

At the federal level, Canadian preference is provided both by a priority classification for domestic sources in the lists used in the bid-solicitation system and by a policy which assesses a 10% penalty on the foreign content of a bid. A DSS review of the effectiveness of the preference policy indicated that the benefits have not been substantial.

Ontario has a Canadian Preference Policy (CPP), similar to the federal policy. Studies of the effectiveness of the CPP by MITT found that CPP was not a dominant factor in awarding contracts. In practice, few purchases are altered by CPP participation. The combination of price considerations and the competitiveness of Canadian bidders reduces the necessity to pay a premium for Canadian content.

It is very difficult to verify the veracity or quality of Canadian content claims submitted by companies. At both levels of government, the administrative costs to both business and government may outweigh the benefits of the program to Canadian industry.

Like the federal and provincial governments, Ontario Hydro has a Canadian preference policy which appears to successfully direct purchases to Canadian suppliers. Ontario Hydro does not consider foreign bidders for its contracts unless: (1) there is inadequate domestic competition (<2 companies), (2) the foreign technology is superior or (3) the product cannot be obtained from a Canadian source. As a result, an estimated 80% of purchases in Hydro's major procurement categories are Canadian or from Canadian suppliers. This contrasts with a federal estimate that the domestic content of government procurement in similar categories is only 50% in the public sector.

### *Other Federal Preference Policies*

Another federal policy, called the Procurement Review Mechanism (PRM), attempts to channel the benefits of contracts worth more than \$2 million to specific industries and regions. PRM may have some indirect effect on small businesses through the provision of subcontracting opportunities. A study done by the Nielsen Task Force on Program Review indicated that the benefits have not been substantial, although the continuation of PRM in modified form was recommended.

Major weapons systems purchases under the Defense Production Sharing Arrangement (DPSA) have yielded mainly short term build-to-print contracts without the desired technology transfer and investment benefits.

The most effective federal policy appears to be the use of procurement source lists which identify qualified Canadian bidders. Unlike the U.S. government, the federal government does not have a specific set-aside policy for small business; despite this, small business has at least a 30% share of the federal procurement in Canada, compared to 17% for small business in the U.S. At the provincial level, too, small business wins about 60% of the value of Ontario procurement, despite the lack of set-aside provisions.

### *Other Provincial Preference Policies*

The Ontario government uses the Industrial Development Review Process (IDRP), designed to foster business development through the procurement process. Purchases over \$250,000 which have the potential for increased employment, import replacement, and product innovation are subject to IDRP.

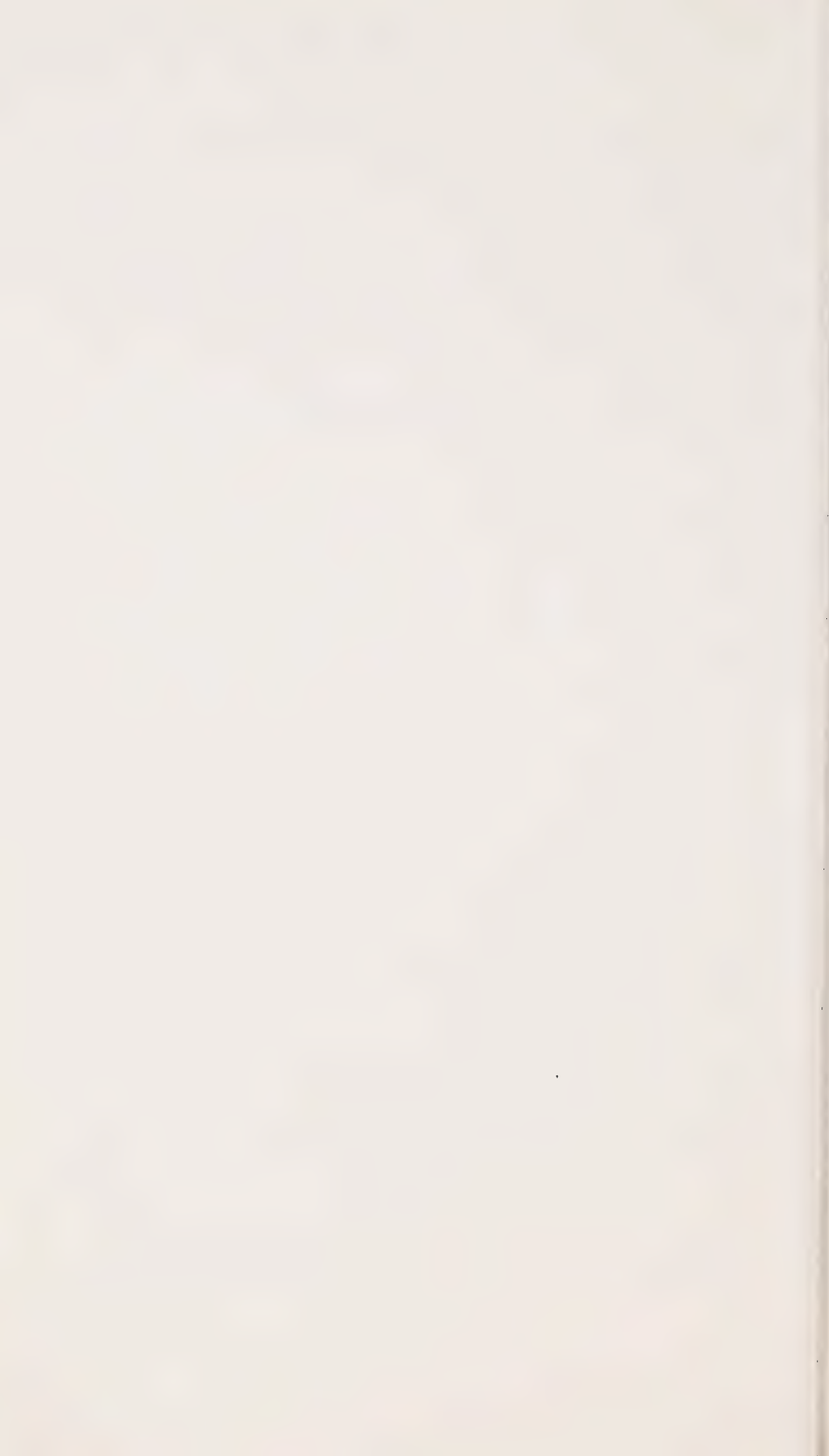
IDRP was subject to a recent MITT review. The program has been judged a success in some cases, but it has not been widely applied and it has had negligible impact on purchasing decisions in Ontario. This may be because most government purchases are below the review threshold of \$250,000. Also, the IDRP process is reactive and is often implemented only after a tender is called. The program might be more effective if used proactively in a strategic approach to government purchasing. This is difficult to accomplish in a decentralized purchasing environment such as Ontario.

Another form of procurement policy which affects Ontario business are interprovincial trade barriers, which provinces use to favour their own provincial suppliers. The federal International Trade Advisory

Committee reported in 1986 that provincial procurement policies restrict interprovincial trade in the following sectors:

- telecommunications equipment;
- heavy electrical equipment;
- urban transportation equipment;
- office equipment and supplies;
- construction material;
- pharmaceutical and hospital supplies.

These are all sectors in which Ontario business would otherwise be very competitive.



# 7 Opportunities for Growth III: Exporting

## Introduction

Merchandise exports accounted for approximately 25% of Canada's Gross Domestic Product in 1987, and approximately 28% of the Ontario economy.<sup>1</sup> While the automotive and natural resources sectors accounted for the largest share of Ontario's export trade, workers and employers in a majority of industries are influenced substantially by trade issues.

**Table 7.1<sup>2</sup>** *Shares of Employment and Trade with the U.S., 1985*

Ontario manufacturing industries grouped by trade orientation				
Trade Group	Number of Industries	Estimated Employment	Trade with U.S.	
			Exports	Imports
	%	%	%	%
Two Way Trade	24	36.2	79.4	81.9
Export Oriented	16	13.3	11.4	2.6
Import Competing	18	14.6	2.6	9.3
Low Trade	41	31.0	4.3	4.5
	<b>112</b>	<b>877,800</b>	<b>\$50.2 billion</b>	<b>\$49.8 billion</b>

<sup>1</sup> Source: Statistics Canada.

<sup>2</sup> Source: Statistics Canada.

**Two Way Trade** includes industries that have a relatively high export orientation to the U.S. market and simultaneously experience a relatively high degree of competition from U.S. imports. Specifically, exports represent 19%+ of total industry shipments while imports account for 22%+ of apparent provincial consumption.

**Export Oriented** includes industries that have a relatively high export orientation to the U.S. market but face a relatively low degree of competition from U.S. imports. Specifically, exports account for 19%+ of total industry shipments while imports account for <22% of apparent provincial consumption.

**Import Competing** includes industries that have a relatively low export orientation to the U.S. market but experience a relatively high degree of competition from U.S. imports. Specifically, exports account for <19% of total industry shipments while imports account for 22%+ of the apparent provincial market.

**Low Trade** includes industries where relatively little trade takes place between Ontario and the U.S. Specifically, exports represent <19% of total industry shipments while imports account for <22% of the apparent provincial market.

The small business community is not traditionally perceived as a major source of exports or international trade. Nationally, companies with fewer than 100 employees or less than \$2 million in sales account for about 8% of direct exports, according to Statistics Canada. However, when sales of components and services to exporters are taken into account, small businesses account for about 29% of indirect exports - roughly the same as the total small business contribution to the national economy.<sup>3</sup>

Export behaviour reported during a recent Canadian Federation of Independent Business survey of some 3,500 Canadian small and medium enterprises (SMEs) is given in Table 7.2.

**Table 7.2<sup>1</sup>**      *Exporting Behaviour of Small and Medium Enterprises, Canada, 1987*

	General	U.S.	Other Foreign
	% Exporting		
SME (Canada)	22	28	11
SME (Ontario)	34	35	10
SME (2 yrs or less)	32	23	—
SME (10 yrs +)	38	29	—

### Factors Affecting International Trade

The Canada-U.S. Free Trade Agreement (FTA) is one element in an economic environment that has changed significantly over the past ten years. The FTA has focussed public attention on the competitiveness of Canadian businesses relative to their U.S. counterparts. For small businesses interested in international trade, the issue of market competitiveness encompasses a number of important factors.

*Currency Exchange Rates.* Exchange rates may be the most critical factor. There is no conclusive evidence of the relative importance for small business exports of factors such as price, specialization, service or technological advantage; but the relative strength of the Canadian dollar may play a vital role in the competitiveness of small business exporters. Much of Ontario's competitive advantage in recent years derives from the

<sup>3</sup> Source: DRIE Small Business Office, 1985.

<sup>1</sup> Source: Canadian Federation of Independent Business, *Market Orientation of Small and Medium Firms*, March 1987.

The firms surveyed all had fewer than 500 employees.



valuation of the Canadian dollar below \$0.80 U.S.

*Relative Interest Rates.* As the chapter on Finance details, small businesses tend to be more dependent than larger corporations on short-term debt financing. Canadian interest rates have tended to run between 1.5% and 3.0% higher than comparable U.S. rates in recent years.

*Comparative Tax Climate.* Small business tax rates in Canada compare favorably with those in some neighbouring U.S. jurisdictions, even including sales and payroll taxes. A Price Waterhouse study of tax reform and its impact on Canadian manufacturing found that both pre-reform and post-reform tax burdens (combined federal and local statutory rates) were lower in Canada than in many areas of the U.S. The findings are presented in Table 7.3.

**Table 7.3<sup>5</sup>** *Comparative Tax Burdens, Canada & U.S.,  
Manufacturing Sector, 1988*

	Combined federal/local statutory rates	
	Pre-Reform*	Post-Reform**
<b>Canada:</b>		
Ontario	44.5%	37.5%
Quebec	35.5%	28.5%
Alberta	35.0%	32.0%
<b>United States:</b>		
Connecticut	52.21%	41.59%
New York	51.40%	39.94%
Ohio	51.22%	40.02%
California	51.18%	40.30%
Massachusetts	51.13%	40.27%
Tennessee	49.24%	37.96%
Michigan	47.27%	35.55%

\* Using U.S. federal top marginal rate of 46%.

\*\* Using U.S. federal top marginal rate of 34%.

<sup>5</sup> Source: Price Waterhouse, *Tax Reform and Its Impact on Canadian Manufacturing*, 15th CIM Executive Conference and Technical Seminar, February 1988.

Small manufacturing businesses in Ontario receive a preferential tax rate on their first \$1,000 of income. This preference will be slightly diminished post-reform (22% combined compared to 20% pre-reform).

Relative tax rates become more important when one considers that a majority of present exporters focus on regional U.S. markets. According to a recent survey by *Small Business Magazine*, 56% of current exporters and 73% of prospective exporters would focus on serving particular U.S. regional markets (especially border states), rather than serving a national market under the FTA.<sup>6</sup>

*Level of Market Concentration & Specialization.* Some trade experts suggest that the FTA may lead to an increase in the rate of business mergers and acquisitions, as large and medium-sized companies seek to rationalize and achieve economies of scale. A reduction in the number of firms would indirectly affect small businesses by curtailing their market for goods and services.

However, since the competitive position of small businesses in many markets is directly related to the degree of market concentration in particular industries, the continued closing or rationalization of branch plants may lead to new opportunities for specialized Canadian entrepreneurs.

*Productivity and Access to Improved Technologies.* U.S. manufacturers continue to enjoy a continuing advantage in overall productivity, historically caused by smaller economies of scale in Canadian branch plants, longer Canadian supply/distribution lines and relatively higher Canadian levels of employee compensation in some sectors.

As Chapter 5 indicates, the Ontario government is committed to helping small businesses seek out and adopt new or improved product and process technologies to enhance their relative competitiveness in areas of cost and flexible response to demand.

*Relative Access to Financing.* Despite frequent criticisms made of the Canadian banking system and its treatment of small and growing businesses, Canadian small businesses historically have experienced a much higher reliance on external bank financing than their American counterparts.

This can be explained by several factors, especially:

- tighter treatment of Canadian business debtors than the U.S. Chapter XI bankruptcy laws, which permit insolvent companies up to 6 months to reorganize;
- more restricted access than U.S. small and medium-sized companies to external equity financing, particularly since the U.S. financial deregulation measures of the late 1970s.

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<sup>6</sup> *Small Business Magazine*, vol. 7, no. 8, July/August 1988.

As the FTA provides U.S.-owned financial institutions with greater access to Canadian markets (subject to existing regulatory constraints on Canadian banks and trust companies), more competition for medium-sized business accounts may result in major population centres.

*Access to United States Government Procurement Contracts.* The Canadian government estimates that U.S. government procurement of goods and services exceeds \$700 billion (Cdn) annually, broken down as indicated below:

U.S. federal government expenditures	41.2%
• Military purchases	37.0%
• Non-military purchases	4.2%
U.S. state government expenditures	33.4%
U.S. municipal government expenditures	25.4%

According to estimates by the Canadian government, in 1984 Canadian products accounted for approximately 0.5% of total U.S. defence expenditures (valued at \$1.4 billion Cdn), and 0.2% of U.S. non-military government procurement. Canadian suppliers have not been very successful so far in penetrating either the civilian or military U.S. procurement market.

The FTA will lower the limit for national treatment in procurement to \$5,000 US from the existing \$171,000 limit negotiated under GATT. While the lower threshold will allow some smaller companies to bid on U.S. government procurement contracts, the GATT code remains unchanged in other respects and forms an annex to the FTA, and foreign competition bans in many U.S. government procurement policies remain in place.

### Small Business Response to the FTA

Member surveys of the Canadian Federation of Independent Business, the largest representative national small business organization, indicate 88% support for the FTA, with 7% opposed, 25% indicating no impact on their businesses and 31% with no opinion. Although the percentages did vary greatly between provinces, Ontario, Nova Scotia and PEI showed the lowest support for free trade while British Columbia and Alberta showed the greatest support.<sup>7</sup>

Recently, *Small Business Magazine* commissioned a survey of 361 owner/managers of small to medium-sized businesses. The survey

<sup>7</sup> Source: Canadian Federation of Independent Business, *Submission to the Ontario Standing Committee on Finance and Economic Affairs*. March 1988.

found that, while 64% of respondents support the FTA, only 45% believe that the agreement will be good for their particular industry. 11% think that it will be bad overall, 39% think that it will have little or no impact on balance, and the remainder have no opinion.<sup>8</sup>

A Laventhol and Horwath study of small business found that support for free trade increased with the size of the small business. For firms with under 5 employees, the number of companies which believe free trade will be beneficial is equal to the number which do not. However, of firms with 20-100 employees, more than twice as many believe it will benefit them as not.

**Table 7.4<sup>9</sup>** *Business Owners' Opinions on Benefit of Free Trade to Their Company by Size of Firm, Ontario, 1988*

Opinion	Number of employees		
	0-4	5-19	20-99
	%		
Strongly agree	18	16	22
Agree	18	30	28
Disagree	11	7	6
Strongly disagree	24	18	17
No opinion/answer	31	29	28

### Small Business Changes under the FTA

The *Small Business Magazine* survey indicates that more than 25% of owners and managers of small to medium-sized businesses expect to make changes in the way their firms operate as a result of the FTA. Almost one-third expect more competition from U.S. companies; 17% anticipate acquiring all or part of a U.S. company to complement their existing business; and 12% anticipate that all or part of their company could be sold to a U.S. firm.

<sup>8</sup> *Small Business Magazine*, vol. 7, no. 8, July/August 1988.

<sup>9</sup> Source: *Newly-Formed Small Businesses in Ontario, 1985-87*, Small Business Advocacy Report No. 27, August 1988. Prepared by Laventhol & Horwath.

**Table 7.5<sup>10</sup>**      *How Small Businesses Expect to Change under FTA, Canada, 1988*

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<b>Change way company is operated</b>	
Expect to make changes	26.0 %
Do not expect to make changes	66.5 %
Uncertain/no comment	7.5 %
<b>Competition from U.S. companies in Canadian market</b>	
Expect more competition	32.8%
Expect less competition	1.9%
Expect no change	59.8%
Uncertain/no comment	5.5%
<b>Purchase of all/part of your firm by U.S. firm</b>	
Expect such purchase	11.6%
Do not expect such purchase	77.9%
Already U.S.-owned	1.4%
Uncertain/no comment	9.1%
<b>Purchase of all/part of U.S. firm by your firm</b>	
Expect such purchase	17.0%
Do not expect such purchase	73.8%
Uncertain/no comment	9.2%

One common change small businesses expect under the FTA is to increase U.S. exports. Of 353 companies surveyed at random from Dun & Bradstreet lists of owner-managed firms with sales between \$250,000 and \$5 million, 21.8% already sell to the U.S. - a figure expected to grow to 33% under the FTA. About 20% of the exporting firms have U.S. production and service facilities.<sup>11</sup>

<sup>10</sup> Source: *Small Business Magazine*, vol. 7, no. 8, July/August 1988.

<sup>11</sup> *Ibid.*





# 8 Financing Small Business

## Constraints to Small Business Growth

Undercapitalization, both at the start-up stage and later in a small venture's development, appears to be a major factor in the slow growth of small businesses. The fastest-growing Ontario companies begin with an average investment of over \$350,000 - more than ten times the start-up capital for the average new firm.<sup>1</sup>

Small businesses require financial assistance at virtually every stage of their growth and development. At each stage the need for funding is based on a different set of circumstances.

Money is often needed prior to the start-up of a new enterprise for research and development (R&D) or marketing studies. Seed capital can be required for lab work, construction of prototypes, feasibility studies, and so on. This work is often undertaken with the entrepreneur's own funds or perhaps with a bank loan secured by the entrepreneur's personal assets. An unknown innovator, with no track record and limited personal resources, can find the initial financial obstacles difficult to overcome.

Later, during the start-up stage, additional capital is required to launch the venture on a sound footing. Revenues build slowly, and while day-to-day operations may be profitable, the debt accumulated during the R&D and start-up phase usually puts considerable strain on the finances of the new business. This stage of a company's evolution is typified by volatility, high short-term debt and a shallow equity base. The break-even point, including debt servicing, is often years in the future.

In the growth and accelerated growth stages, capital is needed to expand and improve plant, equipment and personnel, and to enable the venture to evolve to medium size. Yet significant financial obstacles to growth remain. In the early growth stage, there is a great need for capital - preferably equity capital. Firms at this stage of development - those having under \$5 million in assets - are often burdened with a high debt-equity ratio, making growth difficult.

The difficulties continue as the venture evolves to a medium-sized business. Most of these firms continue to suffer from a weak equity base. In many ways, the general weakness of the medium-sized business

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<sup>1</sup> Source: *Ontario's Fast-Growth Companies*, Small Business Advocacy Report No. 18, April 1987. Prepared by Decision Marketing Research Ltd.

sector of our economy and the shortage of firms poised to expand into international markets - so-called threshold firms - are rooted in the financial constraints on smaller ventures.

### Debt Financing

There are limitations to the use of debt, especially short-term debt, as an instrument to fund growth. Debt first of all strains the liquidity position of a struggling business, reducing its flexibility to deal with unforeseen circumstances and to respond to opportunities and downturns. Secondly short-term debt can inhibit the attraction of further capital, stalling growth. Thirdly, the "unknowns" in a business start-up and the perception of high risk frequently force entrepreneurs to provide personal guarantees for their firm's loans, requiring higher total collateral coverage than larger ventures do.

Still, debt remains an important source of small business financing. A recent study found that 36% of newly-formed small businesses in Ontario got their start-up financing from banks and financial institutions and 63% of them relied on banks for additional financing. In addition, almost 60% of those surveyed stated that they would be willing to go or go further into debt if they needed more capital.<sup>2</sup>

### Bank Financing

The role of Canada's chartered banks in providing financing to small business is both underestimated and misunderstood. The April 1986 issue of *Canadian Banker* magazine reviewed the chartered banks' involvement in small business financing, and found the following:

- 80% of loans to small businesses are made through the chartered banks.
- Banks deliver more than 90% of government-backed loans to small business, most of these through the Small Businesses Loans Act (SBLA).
- 40% of loans extended under the SBLA were provided to finance the start-up of new ventures.

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<sup>2</sup> Source: *Newly-Formed Small Businesses in Ontario, 1985-87*, Small Business Advocacy Report No. 27, August 1988. Prepared by Laventhol & Horwath.

- Government-backed loans represent only about 10% of the banks' small business loans portfolio, indicating that banks play a major role even without government guarantees.
- The outstanding loans to small businesses in 1985 totalled \$15.9 billion, a figure even more significant when one considers that this is the sum total of loans of \$500,000 or less.
- Just over 86% of the small businesses surveyed in 1985 identified chartered banks as their primary source of funding and financial services.<sup>3</sup>

### *Federal Government Debt Financing Programs*

#### SMALL BUSINESSES LOANS ACT (SBLA)

The *Small Businesses Loans Act* (SBLA) was introduced in January, 1961, to encourage private sector lenders to make term loans to small businesses. It is administered by Industry, Science and Technology Canada. Approved lenders are compensated for 85% of any losses sustained through defaults on business improvement loans made under the *Act*.

The 1987 SBLA *Annual Report* recounted that, of approximately 7,800 firms (representing about one third of SBLA users), 39% were new start-ups, 8% were in their first year of operation, 8% were in their second year and 6% were in their third year. In other words, 61% of loan activity went to firms in their first three years of existence - businesses which are often denied conventional loans.

Table 8.1 presents SBLA lending activity for the most recent fiscal year. Figures for the country as a whole are provided for comparative purposes. SBLA lending to Ontario small businesses accounted for almost one-third of the total activity.

<sup>3</sup> Source: Mary Jane Grant, "Update: Small business and the banks", *Canadian Banker* (magazine of the Canadian Bankers' Association), April 1986.

**Table 8.1<sup>4</sup>** *SBLA Lending by Type of Business Enterprise,  
Ontario and Canada, 1987-88*

Type of Business	Ontario		Canada		Ontario as a % of Canada	
	No.	\$	No.	\$	No.	\$
Communications	60	1,973,103	179	5,466,386	34%	36%
Construction	475	14,865,559	1,570	49,034,370	30%	30%
Fishing	1	16,000	218	7,084,404	—	—
Manufacturing	651	26,423,815	1,821	66,338,975	36%	40%
Retail Trade	1,367	62,303,790	4,260	163,611,554	32%	38%
Business Services	2,237	90,609,799	7,860	288,653,049	28%	31%
Transportation	355	14,402,189	2,136	85,382,396	17%	17%
Wholesale Trade	179	6,135,937	596	18,154,782	30%	34%
<b>Total</b>	<b>5,325</b>	<b>216,730,192</b>	<b>18,640</b>	<b>683,725,916</b>	<b>29%</b>	<b>32%</b>

#### FEDERAL BUSINESS DEVELOPMENT BANK (FBDB)

The Federal Business Development Bank (FBDB) provides its clients - Canadian businesses, with special emphasis on small and medium-sized firms - with loans, loan guarantees, venture capital, management counselling and information, and training and planning services. In 1987 the FBDB experienced record levels of lending, introduced new services and achieved modest profits.

It is interesting to note that, during fiscal 1988, the FBDB had a penetration rate (number of FBDB customers as a percentage of all businesses in the district) in Northern Ontario of 7%, as opposed to a 1% penetration in Toronto. Apparently the Toronto market is being adequately served by the banking industry, while the Northern Ontario entrepreneur has a greater need for FBDB services.

Tables 8.2 and 8.3 show FBDB term lending activities in Ontario through the most recent fiscal year.

<sup>4</sup> Source: Ministry of Small Business & Tourism, 1988.

	Southwestern District		Eastern District		Northern District		Metropolitan District		TOTAL ONTARIO			
	1986	1987	1988	1986	1987	1988	1986	1987	1988	1986	1987	1988
Lending Activities												
No. of Loans	309	378	289	190	359	368	324	339	272	271	257	323
Amount Authorized (\$ millions)	45	61	47	36	78	79	46	40	35	62	75	68
											189	254
											229	
Portfolio (As at Year End)												
No. of Customers	1,357	1,215	1,149	879	858	923	1,153	1,107	1,067	1,030	933	925
Amount Outstanding (\$ millions)	110	129	142	89	112	153	78	94	99	99	133	159
											376	468
											553	
Job Creation Impacts of Annual Activities												
Annual No. of New Jobs to be Created by Loan Recipients	545	860	660	440	590	605	385	400	445	690	1,015	630
											2,060	2,865
											2,340	

Source: FBDB Ontario Regional Office, June 1988.

**Table 8.3<sup>6</sup>** *Federal Business Development Bank Term Lending Activities in Ontario Region, 1987-88, by Industry*

Industry Group	No. of Loans	\$ Amount
	% Distribution	
Manufacturing	16	18
Tourism	28	29
Retail Trade	19	14
Commercial & Industrial Real Estate	15	20
Construction	6	4
Services (excl. Tourism)	5	5
Other	11	10
<b>Total</b>	<b>100</b>	<b>100</b>

The FBDB's Export Receivables Financing Program was launched in February 1987 as a pilot project. Its purpose was to fill the "gap" left by the banking industry and existing federal and provincial programs. It is open to any small or medium-sized business which exports goods or services. Firms can obtain an FBDB-guaranteed line of credit from financial institutions covering 60% to 90% of the value of export receivables. The receivables secure the line of credit.

The credit criteria for the program are the same as for term loans. There are no minimum or maximum limits. A 1% annual fee is levied upon acceptance of the application and an additional 2% is charged upon use of the credit, on top of the interest charged by the financial institution.

<sup>6</sup> *Ibid.*



Table 8.4<sup>7</sup>*Federal Business Development Bank Export  
Receivables Financing Program*

Summary of activity as at April 30, 1988

	Ontario		Canada	
	Number	\$(000)	Number	\$(000)
Enquiries	241		853	
Applications	30		73	
Authorizations	18	2,770	49	10,745
Declined	7		13	
Pending	5	1,115	11	3,115

## EXPORT DEVELOPMENT CORPORATION (EDC)

The Export Development Corporation (EDC) is a federal Crown Corporation which functions as Canada's official export credit agency. As such, its mandate is to support the efforts of Canadian exporters to expand their sales. It provides a range of services which reduce the risk of export activity, including:

- export credit insurance, which protects a firm for 90% of losses incurred should a foreign buyer default on a payment or go bankrupt;
- performance-related insurance, which covers a business for losses resulting from a call by a foreign customer on a performance-related bond, through no fault of the exporter;
- foreign investment insurance, which protects a firm's out of country investment against adverse political risks;
- export financing, which provides up to 85% of the foreign buyer's agreed price (the foreign buyer pays EDC directly).

Small and medium-sized businesses represent 82% of the Canadian businesses supported by EDC.

Table 8.5 shows the value of exports covered by EDC in fiscal 1987. EDC provided coverage for \$1.089 billion worth of Ontario exports, more than for any other region and virtually one third of the country's total export value. Just under one third of Ontario exports insured under the program originated from firms with fewer than 100 employees. A

<sup>7</sup> *Ibid.*

breakdown of exports by industrial sector indicates that services, the mainstay of small businesses, accounted for the largest share of provincial exports.

**Table 8.5<sup>8</sup>** *Exports Covered by EDC Insurance Program, by Region and Size of Firm, 1986-87*

Number of Employees	REGION					
	Atlantic	Quebec	Ontario	Prairies	B.C.	Canada
	(\$ millions)					
1 - 4	-	8.4	23.6	12.0	42.3	86.3
5 - 19	1.5	23.3	106.8	27.2	14.9	173.7
20 - 99	6.8	102.0	213.2	253.0	99.5	674.5
<b>Total 1-99</b>	<b>8.3</b>	<b>133.7</b>	<b>343.6</b>	<b>292.2</b>	<b>156.7</b>	<b>934.5</b>
100 - 499	95.5	104.3	169.1	36.8	332.1	737.8
500 & Over	48.7	71.0	357.5	0.5	268.6	746.3
Not Specified	4.3	554.3	218.9	92.5	14.2	884.2
<b>Total</b>	<b>156.8</b>	<b>863.3</b>	<b>1089.1</b>	<b>422.0</b>	<b>771.6</b>	<b>3302.8</b>

### *Provincial Government Debt Financing Programs*

#### THE DEVELOPMENT CORPORATIONS

Debt financing assistance to small businesses is coordinated on behalf of the Ontario Government by three of The Development Corporations: Ontario Development Corporation (ODC), Eastern Ontario Development Corporation (EODC) and Northern Ontario Development Corporation (NODC).

The Development Corporations were founded to encourage and assist in the development and diversification of industry in Ontario. These goals are accomplished by:

- offering lending and investment for business start-ups, expansion and high risk ventures;
- providing advisory assistance to business;
- stimulating investment on a regional basis;
- supervising and administering major development loans;

<sup>8</sup> Source: Export Development Corporation.

- implementing and administering financial assistance programs on behalf of other agencies;
- implementing and administering federal-provincial regional development agreements;
- operating two industrial parks;
- managing Ontario investments.

Foremost among The Development Corporation's initiatives are those which provide financial assistance to the province's small businesses by way of term loans, interest subsidies, guarantees, revolving lines of credit or demand loans (used for financing export receivables).

In extending these services to small businesses, The Development Corporations assume risk levels above those of private sector financial institutions and the FBDB, particularly in underdeveloped regions of the province. The element of risk is reflected in the loan losses of the Corporations compared with those of the chartered banks and the FBDB. Loan losses for The Development Corporations amount to 3-4% of total activity. This compares with just over 1% for the chartered banks and just over 2% for the FBDB. Despite the higher risks and loan losses, only 10% of the loan enquiries made each year are actually approved.

In 1987, The Development Corporations lent over \$129 million to businesses across the province, with an average investment of nearly \$250,000. 15% of the loans were for export support, 26% for tourist activities and 59% for industry. On a per capita basis, for every \$1 lent in Southern Ontario, \$1.74 was lent in the East and \$6.30 in the North.<sup>9</sup>

#### NEW VENTURES

The Government of Ontario introduced the New Ventures Program in September, 1986 to address the needs of new business owners through a program of loan guarantees to finance start-ups. The program is the only one in Ontario which provides working capital with no collateral requirement to all types of start-up businesses.

- Over 5,500 firms have been assisted since launch (over 3,400 in the first complete year of operation).

<sup>9</sup> Source: The Development Corporations, *1987 Annual Report*.

- The participation rate of 28.1% in Northern and Eastern Ontario was higher than projected.
- The 28% participation of women was higher than expected.
- An average of 2.8 jobs were created by each responding firm - well above the projection of 1.5 incremental jobs per firm per year.
- Sales averaged \$67,516 over the first six month period (446 businesses earned over \$30 million in sales).
- Each business borrowed an average of \$15,983 in addition to the New Ventures loan.
- The average owner's equity position was \$26,682 as of October 1987.
- The average original investment by owners was \$19,825, well above the investment required to match the New Ventures loan.
- Over \$2.4 million was invested in the 43 respondent new ventures in Northern Ontario.
- Almost \$4.2 million was invested in the 83 respondent firms in Eastern Ontario.
- Over \$18.2 million was invested in the 320 respondent firms in Southern Ontario.
- The service sector, accounting for over half of the New Ventures loans issued, created the majority (56%) of new full-time jobs, and created more than its share (54.8%) of part time jobs.<sup>10</sup>

As of December, 1987, there were 61 loans in default. In November, 1987, New Ventures staff examined these failures and identified several trends, although the small size of the sample precludes drawing definitive conclusions about the program. Some patterns do, however, stand out:

- Small businesses based in Northern Ontario were more than twice as likely to default on loans as those in Southern or Eastern Ontario.
- Loans to Northern ventures accounted for some 25% of the defaults although the region made up only 8.2% of all loans issued.

The following tables present additional data on the New Ventures program.

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<sup>10</sup> Source: Ministry of Industry, Trade & Technology and Ontario Development Corporation, *New Ventures Preliminary Results*, February 1988. The report is based on 446 business reviews returned by program participants by October, 1987.

Table 8.6<sup>11</sup>*Distribution of New Ventures Loans by Lender  
as at December 1987*

	%
CIBC	29.1
Royal Bank	28.2
Toronto Dominion	17.2
Bank of Nova Scotia	14.1
Bank of Montreal	8.2
National Trust	2.7
Other*	0.5
<b>Total</b>	<b>100.0</b>

\*0.5% of New Ventures loans have been issued by the National Bank, the credit unions and the caisses populaires.

Table 8.7<sup>12</sup>*Distribution of New Ventures Loans by Region  
as at December 1987*

	%
North	8.2
East	19.9
South	71.9
<b>Total</b>	<b>100.0</b>

Table 8.8<sup>13</sup>*Distribution of New Ventures Loans by Sector as  
at December 1987*

	%
Service	51.3
Trade	36.7
Manufacturing	12.0
<b>Total</b>	<b>100.0</b>

<sup>11</sup> *Ibid.*<sup>12</sup> *Ibid.*<sup>13</sup> *Ibid.*

### Equity Financing

Equity investment presents an attractive alternative to debt financing as a means of launching or expanding a small business.

It strengthens, rather than weakens, the firm's financial situation. An infusion of equity capital, in the form of minority shareholdings, often enables a small business venture to attract more of the same. In addition, it can so improve a company's finances that access to conventional bank loans becomes easier and debt less onerous to carry. In short, equity capital can facilitate healthy growth without overextending the business's financial resources.

Despite the obvious benefits of equity capital investment, many entrepreneurs find it difficult to accept an equity partner or partners. An entrepreneur's need to control the environment is often so strong that he or she is unable to "let others in" to join the venture, even though they only desire minority shareholder status. An even greater problem is that many proprietors who do want equity participation in their firms either do not know how to attract it or are unsuccessful at doing so.

### *Venture Capital*

The Canadian venture capital industry is proportionately smaller than its U.S. counterpart and, at this stage, less sophisticated. In 1986, the State of Massachusetts had \$525 of venture capital under management per capita, New York State had \$300 per capita, and California had \$286. Ontario had only \$81 per capita of venture capital under management.<sup>14</sup>

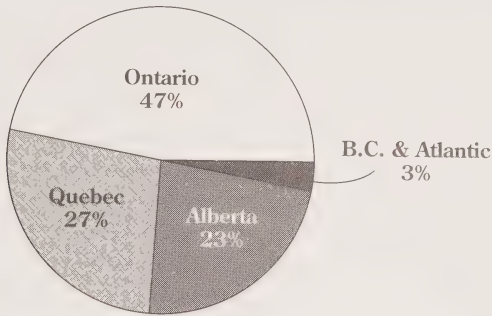
While the per capita value of venture capital funds under professional management in Ontario is far below that of several major U.S. states, Ontario has by far the largest portion of venture funds among the Canadian provinces. As of December, 1986, a total of \$710 million was managed by Ontario venture capital groups, accounting for 47% of the national industry total.

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<sup>14</sup> Source: MITT Small Business Branch.

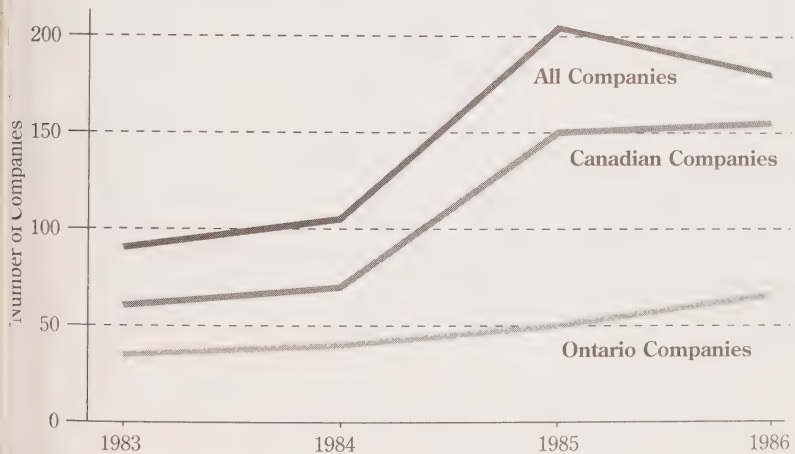


**Chart 8.1<sup>15</sup>** *Regional Distribution of Capital Under Management for Venture Investing as of December 1986, Canada*



Although investment in Ontario companies did not rise as spectacularly in 1984 as it did in other companies, investment in Ontario companies has been growing faster than investment in Canadian companies since 1985.

**Chart 8.2<sup>16</sup>** *Total Venture Investments in Canadian and Ontario Small and Medium Enterprises, 1982-1986*



The venture industry is growing, in part due to the increasing

<sup>15</sup> Source: Venture Economics Canada Ltd., 1987.

<sup>16</sup> *Ibid.*

The venture industry is growing, in part due to the increasing investment activity of pension funds. Ontario's pension funds are the largest source of available capital for the industry. Increasingly, pension fund managers are choosing venture investments in small to medium-sized enterprises as a component of a balanced investment portfolio. Such investments have higher risks attached, but also have superior growth potential.

Together, Ontario public and private sector pension funds committed \$165 million to private venture capital funds from 1981 to 1986. While this may appear to be a significant investment, it represents only about 0.2% of total pension fund assets.<sup>18</sup> The participation of pension funds in venture investment must continue to grow in order to strengthen the size and sophistication of the province's venture capital industry.

Venture capital funds usually take minority positions of 10% to 45%, enabling the entrepreneur to remain in control of the enterprise. These investments are made for the anticipated capital gain when the minority interests are sold. Generally, venture capital funds prefer to invest when a strong management team is in place and the business has established a good track record.

Venture capital funds prefer to finance a business's growth, rather than fund the seed or start-up stages, so that they will be in a position to divest themselves of their holdings in as little as 2 to 3 years after investment. When capital is invested at an earlier stage, funds can be tied up for as long as 5 to 10 years before a favourable return can be enjoyed. This propensity can make venture capital inaccessible to many small firms.

While the number of companies financed by venture capitalists and the total dollars invested have both been increasing over the past 5 years, there has been a sharp drop-off of funding to seed and early stage firms, as shown in Table 8.9. In 1984, seed and start-up firms accounted for 40% of the companies financed and fully 50% of the dollars flowed. By 1986, this segment's share had dwindled to 18% of companies and merely 6% of funds. Early stage investments also tend to be smaller, as seen in Table 8.10.

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<sup>17</sup> Source: *Venture Investing and Prudence*, Venture Economics Canada Ltd., 1987.

**Table 8.9<sup>18</sup>** *Distribution of Companies Venture Financed and Venture Amounts Invested by Stage, Ontario, 1983-1986*

Company's Stage	1986		1985		1984		1983	
	#	\$	#	\$	#	\$	#	\$
	%							
Seed/Start-up	18	6	38	26	40	50	11	3
Other Early	8	3	0	2	7	11	14	11
Expansion	38	36	30	42	43	16	26	22
LBO	9	8	16	20	5	21	29	54
Turnaround	6	13	14	11	2	3	6	8
Other	17	35	2	0	2	0	11	3
Unknown	5	0	0	0	0	0	3	0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Number of Companies</b>								
<b>Financed</b>	<b>66</b>		<b>50</b>		<b>42</b>		<b>35</b>	
<b>Total Amount Invested</b>								
<b>(\$ millions)</b>		<b>80</b>		<b>65</b>		<b>38</b>		<b>37</b>

**Table 8.10<sup>19</sup>** *Average Venture Amount Invested in Ontario Companies by Stage, 1983-1986*

Company's Stage	1986	1985	1984	1983
	(\$ millions)			
Seed/Start-up	0.42	0.89	1.12	0.25
Other Early	0.40	-	-	-
Expansion	1.16	1.80	0.33	0.89
LBO	1.00	1.63	-	2.00
Turnaround	2.50	1.00	1.00	1.50
Other	2.55	-	-	0.25
<b>Overall Average</b>	<b>1.21</b>	<b>1.30</b>	<b>0.90</b>	<b>1.06</b>

<sup>18</sup> Source: Venture Economics Canada Ltd., 1987.

<sup>19</sup> *Ibid.*

Despite the attention given to hi tech companies, the consumer-related and industrial automation industries have maintained their combined share of venture capital dollars at a steady 35-37% since 1983, as shown in Table 8.11. The average placements by industry are shown in Table 8.12

**Table 8.11**<sup>20</sup>      *Distribution of Companies Venture Financed and Venture Amounts Invested by Industry, Ontario, 1983-1986*

Industry	1986		1985		1984		1983	
	#	\$	#	\$	#	\$	#	\$
	%							
Communications	9	7	3	2	12	3	16	9
Computer Related	26	17	19	28	18	13	19	13
Other Electronics	5	19	9	19	9	6	10	22
Genetic Engineering	2	0	6	4	6	10	0	0
Medical/Health Related	5	7	11	9	3	3	3	3
Energy Related	0	0	1	0	0	0	0	0
Consumer Related	17	20	13	23	15	23	13	34
Industrial Products	10	17	16	12	9	13	16	3
Industrial Automation	7	1	6	2	3	6	0	0
All Other	19	11	17	2	24	23	23	16
Total	100	100	100	100	100	100	100	100
Number of Companies Financed	58		70		33		31	
Total Amount Invested (\$ Millions)	70		57		31		32	

<sup>20</sup> *Ibid.*

**Table 8.12<sup>21</sup>**

*Average Venture Amount Invested in  
Ontario Companies by Industry, 1983-1986*

Industry	1986	1985	1984	1983
(\$ millions)				
Communications	1.00	0.50	0.25	0.60
Computer Related	0.80	1.23	0.67	0.67
Other Electronics	4.33	1.83	0.67	2.33
Genetic Engineering	0.00	0.50	1.50	-
Medical/Health Related	1.67	0.63	1.00	1.00
Energy Related	-	-	-	-
Consumer Related	1.40	1.44	1.40	2.75
Industrial Products	2.00	0.64	1.33	0.20
Industrial Automation	0.25	0.25	2.00	-
All Other	0.73	0.08	0.88	0.71
<b>Overall Average</b>	<b>1.21</b>	<b>0.81</b>	<b>0.94</b>	<b>1.03</b>

### *Federal Government Equity Financing Programs*

#### FBDB

The FBDB, besides lending activities, offers venture capital investment to its clients. A full 50% of the FBDB's venture capital investments are made to companies in the early or startup stages of development. There has been a considerable increase in FBDB venture capital activity: 32 investments were made in fiscal 1988 versus 19 in fiscal 1987. Ontario's share of this activity is shown in Table 8.13.

<sup>21</sup> *Ibid.*

**Table 8.13<sup>22</sup>***Federal Business Development Bank Venture  
Capital Investment, Ontario and Canada, 1988*

	Ontario	Canada
<b>Activity 1987-88</b>		
No. of investments	9	32
Amount committed and/or invested (\$ millions)	\$5.4	\$22.5
<b>Portfolio as at March 1988</b>		
No. of investees	15	65
Amount committed and/or invested (\$ millions)	\$9.4	\$62

*Provincial Government Equity Financing Programs*

## SMALL BUSINESS DEVELOPMENT CORPORATIONS (SBDC) PROGRAM

Ontario's Small Business Development Corporations (SBDC) program was created to encourage equity funding of the start-up and growth stages of the province's small firms. The program, administered by the Ministry of Revenue, features significant benefits for the investors who form the SBDCs.

Since the SBDC program was introduced in July of 1979, over 2,000 investments have been made which channelled about \$400 million into approximately 900 of the province's small businesses. A summary of SBDC activity for the first half of fiscal year 1988/89, as well as for the program to date, is presented in Table 8.14.

<sup>22</sup> Source: FBDB Ontario Regional Office, June 1988.



**Table 8.14**<sup>23</sup>*SBDC Activity Summary*

Activity	Fiscal Year to September 30/88	Program to Date
Number of SBDC's registered (including registrations subsequently revoked)	60	1069
Number of SBDC's revoked/surrendered	40	452
Number of grant applications approved	450	18,431
Dollar amount of grants approved	\$3,892,474	\$144,187,235
Number of tax credit applications approved	19	454
Dollar amount of tax credits approved	\$312,250	\$5,580,799
Dollar amount of grants recovered through revocation/capital redemption	\$2,299,535	\$10,398,571
Dollar amount of tax credits recovered through revocation/capital redemption	\$112,736	\$618,748
Number of investments in small businesses	83	2087
Dollar amount of investment in small businesses	\$14,985,180	\$408,736,346
Dollar amount of SBDC issued capital (net)	\$16,055,028	\$360,026,869
Number of individual small businesses newly invested in	41	921

The flexible nature of the program, its focus on equity capital participation and the range of support services it offers combine to make the SBDC program a unique contribution toward solving small business chronic cash shortages. Despite these advantages, the SBDC program is not a panacea. Problems with the current program include:

- a pattern of "one shot" investing;
- restrictions on eligibility for firms requiring seed capital and start-up capital, who must engage in an eligible activity within twelve months of the SBDC investment. For some start-ups, this requirement is too stringent;
- waning popularity.

#### EMPLOYEE SHARE OWNERSHIP PLAN (ESOP)

To encourage Ontario employees of small and medium-sized corporations to invest in the businesses they work for, and to provide small businesses with an additional source of investment capital, the Province of Ontario established the Employee Share Ownership Plan (ESOP) to assist employees to purchase shares of their employers. The ESOP program,

<sup>23</sup> Source: Ontario Ministry of Revenue.

administered by the Ministry of Revenue, gives employees a grant of 15% of the purchase price of newly-issued shares of their employer corporations, to a maximum of \$300 per year. There are also grants to assist employees and employers to implement the plan.

To be eligible, employer corporations must be incorporated in Canada, must pay 25% or more of their wages and salaries to employees of permanent establishments in Ontario, and must have either gross revenue or assets (including the gross revenue and assets of associated corporations) of \$50 million or less.

Eligible employees are those who have been employed by the company for at least six months prior to purchasing the shares. They must also work a minimum of 14 hours per week. They must be Ontario residents on the date of the share purchase and on the last day of the previous calendar year. Their shareholdings and those of any related individuals must be less than 10% of the issued shares of any class of the employer's capital stock.

### COMPUTERIZED ONTARIO INVESTMENT NETWORK (COIN)

The Computerized Ontario Investment Network (COIN) is an independent, nonprofit corporation operated by the Ontario Chamber of Commerce through its 160 offices throughout the province. The Ministry of Industry, Trade and Technology has committed funds for promotion, advertising and translation services related to the program. COIN also receives support from private sector sponsors, including Bell Canada, CP Trucks, Dofasco, Price Waterhouse, The Royal Bank of Canada and Xerox. Its purpose is to help bring together investors and entrepreneurs seeking capital.

In contrast to the matching services provided by the FBDB and the SBDC program, COIN is a large-scale, community based service, which is also made available to international investors through Government of Ontario trade offices abroad.

The Network facilitates confidential introductions between investor and entrepreneurs. By the end of August 1988, COIN had made possible 640 introductions resulting in almost \$8 million in new investment in Ontario's small businesses. In addition, COIN has created a new pool of investment capital totalling some \$80 million. The average investment sought and offered is between \$250,000 and \$300,000.

## INNOVATION ONTARIO CORPORATION (IOC)

A crown corporation, Innovation Ontario seeks to reduce the risks of starting new, technology-based businesses in the province. IOC, a sister corporation of The Development Corporations, invests in small-to-medium-sized companies which focus their efforts on technology-based products, processes and services. It also provides a range of technical, business and information services to Ontario inventors and entrepreneurs.

IOC is an integral part of the ongoing partnership between the province's private and public sectors - a partnership of major importance in the field of high technology, where extremely high risks are borne by small, entrepreneurial firms.

IOC also seeks to fill the seed capital "gap" in venture capital supply. Growth-stage financing takes the form of an equity investment which will be repaid or divested according to terms negotiated between IOC and the client.

From its start-up in June 1986 to September 30, 1988, Innovation Ontario received 760 detailed business proposals. In all, 104 projects (with a maximum investment of \$250,000 in any one project) were approved. The total government investment of \$15.3 million levered a further \$31 million in private sector funds.

Also, 66 clients whose projects were declined took advantage of IOC's staff review service to identify key concerns with their proposals. A further 40 clients were referred to other financial institutions or investors.



# 9 Raising Awareness and Cultivating Entrepreneurs

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## Instilling the Entrepreneurial Spirit

Perhaps the most important role of government is to set the framework within which our social, cultural, political and economic development takes place. In the Canadian federal system, provincial governments shoulder a major responsibility for shaping our environment.

Provincial legislation governing employment standards, labour relations and business practices, for instance, establishes the legal framework within which we earn our livings and run our businesses. Provincial jurisdiction in such matters as education, health, training and skills development largely determines the quality of our labour force. Specific government initiatives - supporting high technology, promoting the development of economically depressed regions, aiding small business - have a measurable impact on our economy.

Provincial governments also contribute to the public environment in other, less quantifiable ways. They play a considerable role in instilling values and a sense of public spirit and in creating a community of interest. The Government of Ontario has contributed significantly to the entrepreneurial spirit of the province as Ontarians increasingly recognize the importance of entrepreneurship.

The April 1986 Speech from the Throne stated that the provincial government,

to ensure [Ontario's] place as a world class society of the twenty-first century[,] must provide excellence and relevance in education and training, particularly in shaping a generation capable of innovating and seizing opportunities.

In April 1987, the Speech from the Throne emphasized that

Ontario's future economic growth largely depends on the entrepreneurial spirit of its people. At the heart of that spirit is the small business community, which has accounted for the majority of new jobs created over the last decade.

In November 1987, the Speech from the Throne highlighted the importance of this spirit to Ontario's future:

We must equip our children with the skills, knowledge, creativity

and entrepreneurial spirit they will need to meet the challenges of the twenty-first century.

### The Role of Education

In light of the contributions made by small business to job creation, some see entrepreneurial activities as a panacea for unemployment. Those who hold this view maintain that it is in society's interest to educate people to "become" entrepreneurs, by which they mean "starters of small businesses".

Others take a broader view. Recognizing the value of entrepreneurial *thinking* to large, small, and even non-commercial environments, this group believes that providing entrepreneurial education is in society's best interest because innovation, initiative and creativity are fostered.

Can entrepreneurship be taught? How extensively is it being taught now? How should it be taught? This section focuses on these aspects of the role of education in instilling the entrepreneurial spirit.

#### *Can Entrepreneurship be Taught?*

As recently as 4 or 5 years ago, the attitude that entrepreneurship could not be taught prevailed. This view was probably rooted in the belief that entrepreneurs are "different" - that they are "born, not made." Also underlying this perception was a recognition of the unique nature of entrepreneurial activity and of the difficulties involved in teaching subject material like "creativity," "innovation," and "seizing opportunities."

The Canadian Foundation for Economic Education (CFEE) began examining the issue about 4 years ago. Having established entrepreneurship as a priority, the CFEE set as its first task the publishing of a primer on the subject. In addition to this booklet, the Foundation held the first of what has become an annual conference for educators on entrepreneurship. The CFEE concluded that entrepreneurship can and should be taught, not as a "quick fix" for unemployment, but rather for the broader applications of entrepreneurial principles.<sup>1</sup>

A Philadelphia-based project found that entrepreneurship education had a positive effect on inner-city minority youth's selfimage and on reducing the student drop-out rate. Students also saw greater value in continuing their education because of the entrepreneurial studies

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<sup>1</sup> Source: Gary Rabbior, Executive Director, Canadian Foundation for Economic Education, June 1988.



component of their curriculum.<sup>2</sup>

### *How Extensively is Entrepreneurship Being Taught Now?*

#### THE SECONDARY SCHOOL SYSTEM

Over the last few years, some teachers have been teaching entrepreneurship without the benefit of a specific curriculum guideline in their business studies classes. In the 1986 Speech from the Throne, the Government of Ontario announced measures to introduce entrepreneurship studies formally into the province's schools.

Through the "Bridges to the World of Work" initiative, the Ministry of Education developed two courses, introduced to the high school curriculum in the autumn of 1988. The courses are offered to students in grades 11 and 12 and are augmented by up to 4 credits in co-operative education outside the classroom. The optional co-operative courses enable students to learn more about entrepreneurship and small business through direct exposure to entrepreneurs and from direct experience in representative businesses.

The goal of these courses is to provide students with opportunities to:

- assess their personal interest in and aptitude for entrepreneurial activities;
- understand that entrepreneurial attitudes and aptitudes can be developed over time;
- appreciate that the principles of entrepreneurship have lifelong applications in their day-to-day personal and working lives;
- identify the rewards and challenges of initiative and achievement in a wide range of commercial and non-commercial activities;
- think and act in a creative manner;
- develop self-confidence and apply their initiative, achievements, and creativity to personal, school, business and community service opportunities;
- understand the role of entrepreneurship and innovation in our society and assess the effects of them on the quality and level of economic activity in Canada; and
- examine a wide range of career choices.

<sup>2</sup> Source: Gary Rabbior, *The Development of Entrepreneurial Education in Ontario*.

The objectives for the course material stress the broad view of entrepreneurship and its applicability to day-to-day life.

#### THE POST-SECONDARY ENVIRONMENT

In 1987, 41 courses in entrepreneurship were offered at 23 Ontario colleges and universities, representing an increase of only 1 institution and 1 course since 1980.<sup>3</sup> Comparative data on entrepreneurship education in Ontario and other provinces are summarized in Table 9.1.

**Table 9.1<sup>4</sup>** *Courses in Entrepreneurship in Canada, 1980 & 1987*

Province	Institutions		Courses	
	1980	1987	1980	1987
Alberta	7	10	10	13
British Columbia	11	11	17	19
Manitoba	1	1	1	1
New Brunswick	3	3	6	6
Newfoundland	1	1	1	1
Nova Scotia	4	6	7	8
Ontario	22	23	40	41
P.E.I.	1	1	1	1
Quebec	7	9	23	50
Saskatchewan	2	2	2	3
<b>Total</b>	<b>59</b>	<b>67</b>	<b>108</b>	<b>143</b>

Courses in entrepreneurship have traditionally been offered by university business and engineering schools. During the 1970s, several universities experimented with concentrating courses into an interrelated entrepreneurship program. By the mid-1980s, there were 10 such concentrations or program equivalents in North America, out of 530 institutions offering 1 or more courses in small business or entrepreneurship.<sup>5</sup> The introduction of entrepreneurship programs reflects the emerging status of the field as a distinct discipline of study.

<sup>3</sup> Source: *Select Survey of Small Business Management and Entrepreneurial Activities in Canada, 1980 and 1987*. W.H. Ellis, Faculty of Management, McGill University.

<sup>4</sup> *Ibid.*

<sup>5</sup> Source: W. Ed McMullan & Wayne A. Long, *Entrepreneurship Education in the Nineties*, University of Calgary 1988.

*Curriculum and Delivery: What Should Be Taught and How?*

It is clear that entrepreneurial education should focus on the unique problems faced by entrepreneurs. These problems change as the business changes, adapts to its environment and grows - problems experienced when a venture is launched are often very different from those experienced during the growth stages, for example.

Entrepreneurial studies are most commonly taught in the business or professional schools. This pedagogical mode is subject to a number of limitations, including:

- a focus on producing middle managers, accountants, and staff specialists to meet demand;
- differentiation of subject materials along the departmental lines found in large organizations.<sup>6</sup>

Few ventures begin with a functionally-differentiated organizational structure; many never evolve to the stage where such specialization is required. The specializations which form the basic MBA program - accounting, finance, marketing, personnel, and general management - are often irrelevant to the entrepreneurial curriculum. A more innovative, responsive, and flexible approach is required.

Research by CFEE and studies undertaken in the United States indicate that course design and delivery of entrepreneurship studies must be very different from that of conventional courses. Entrepreneurial education replaces rote learning with "approach to life" learning. This fundamental difference makes considerable demands on course instructors, whether at the high school, college, or university level. Once a curriculum has been developed, teachers have to acquire a new approach for presenting it - in short, they need to employ the principles of entrepreneurship in teaching the new material.

One study recommended subject differentiation by stage of business development rather than by functional specialization, suggesting a program structured around a series of strategic development challenges - opportunity identification, market feasibility analysis, new venture finance, expansion strategies.<sup>7</sup>

<sup>6</sup> *Ibid.*

<sup>7</sup> *Ibid.*

An effective entrepreneurship program, according to 25 identified criteria, should:

1. not focus on "right answers";
2. be highly participatory - activity-based with a "hands-on" focus;
3. be goal/achievement oriented;
4. allow for short-term accomplishments;
5. focus on challenges to the status quo;
6. have a community integration focus;
7. utilize a variety of approaches and teaching styles;
8. have elements that surprise the student and present the "unexpected";
9. present familiar information in unfamiliar contexts;
10. be easily amended and augmented by individual teachers;
11. provide a broad focus for entrepreneurial ventures and initiatives - not only small business start-ups;
12. be fun and exciting;
13. enable frequent and unanticipated feedback;
14. entail approaches and activities that seek to build self-confidence in the student;
15. enable students to apply their knowledge and skill to a particular endeavour;
16. build to a potential "launch point" for a new business;
17. enable and encourage group/team activities;
18. alert students to common pitfalls and reasons for failed initiatives;
19. place a heavy emphasis on "opportunities" - how to identify and evaluate them;
20. expect the teacher to be entrepreneurial;
21. link entrepreneurship to innovation;
22. focus on the consideration and examination of "disequilibrium" as opposed to "equilibrium";
23. provide guidance on the design of a conducive learning environment, as traditional learning environments will be inappropriate;
24. utilize case studies varying as to the nature of the entrepreneurial type of initiative and degree of success;
25. address behavioural dimensions of learning as opposed to just content.<sup>8</sup>

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<sup>8</sup> Source: Gary Rabbior, *Elements of a Successful Entrepreneur/Economics Education Program*, March 1988.

## Provincial Programs in Support of Entrepreneurship

Small businesses in Ontario need assistance in two key areas: access to financing and advisory assistance. Provincial programs addressing the financial needs of small business were reviewed earlier. The Government of Ontario has also mounted several initiatives to improve the availability and quality of advisory expertise. These efforts complement the formal education initiatives. Here is a brief summary of the programs currently offered in support of entrepreneurship in Ontario.

### *Entrepreneur '88*

On May 30-31, 1988, in Toronto, the Ministry of Industry, Trade and Technology (MITT) and the Premier's Council co-sponsored Entrepreneur '88, a forum on entrepreneurship and small business. The objectives of the conference were to showcase and celebrate Ontario entrepreneurs and to inspire aspiring entrepreneurs.

Over 5,000 people, representing a wide cross-section of the public, participated in the conference: entrepreneurs, business owners, venture capitalists, bankers, management consultants, accountants, broadcasters, students, and teachers. The conference featured workshops on topics such as "Packaging Your Business to Attract Investors," "Getting and Keeping the Right Employees for Your Growing Business," and "Strategic Partnering with Big Business and Government". 163 exhibitors from all over the province represented Ontario manufacturing and tradeable service firms with annual sales of over \$500,000.

### *Publications*

MITT has a wide selection of publications designed to help small business owners and entrepreneurs, covering topics such as recordkeeping, business planning and marketing.

*Starting a Small Business in Ontario* is of particular interest to would-be entrepreneurs. The book contains information on taxation, labour regulations, business registration and incorporation, government assistance, licensing, and other advice on business start-ups. Over 10,000 copies of the book (now in its 13th printing) are distributed annually.

On a quarterly basis, MITT publishes the *Small Business Ontario* newsletter. Containing stories of successful entrepreneurs, information about government assistance to business and locations and dates of seminars, the newsletter is distributed free to over 45,000 Ontario business owners and aspiring entrepreneurs.



### *Seminars*

Seminars on marketing, starting a business, franchising, profit sharing, business ownership for women and product costing are held by MITT in over 200 Ontario communities each year. The seminars are usually 3 hours long and are held in the evening for the convenience of aspiring entrepreneurs who hold day jobs. Resource people such as lawyers, accountants, and bankers often attend the seminars as presenters.

MITT also gives a seminar on starting a small business specifically aimed at workers who are facing plant closures.

### *Entrepreneur Clubs*

MITT, in concert with the Ministry of Skills Development, has provided grants of \$1,000 each to help start entrepreneur clubs in 15 of the province's universities. The clubs are usually established by second-year business students and charge annual membership fees of \$5 to \$10. The clubs feature a range of activities with emphasis on prominent guest speakers, who discuss a spectrum of small business and entrepreneurial issues.

### *Start Up*

Through its two Start Up programs, Youth Venture Capital and Student Venture Capital, the Ministry of Skills Development offers interest-free loans to young people with good business ideas. The programs are operated in co-operation with The Royal Bank of Canada and the Ontario Chamber of Commerce through local chambers of commerce. MITT provides seminars and other support for the programs through local field offices.

### *TVOntario*

TVOntario, a crown corporation, is the educational television service for the province. In January 1986, it broadcast an 8-episode series, "Frontrunners," which focused on 8 entrepreneurs identified as role models for small business owners. Developed in consultation with MITT which also made a major financial commitment, the series aimed to increase interest in small business and to encourage entrepreneurship as an alternative to employment. The series has been repeated several times, most recently in the fall of 1988.

TVOntario's Part-time Learning Division introduced a complementary course in small business management which was recognized for credit by several community colleges. Since 1986, a total of 2,421 viewers



paid the \$79 fee to register for the course.<sup>9</sup>

This innovative linking of television and course materials fulfills two objectives: increasing public awareness of entrepreneurship, and improving the skills, knowledge and information available to small business owners.

TVOntario plans to rebroadcast the series in February of 1989 and refer viewers to 17 colleges which would offer the related course. The focus this time, as before, is on the building blocks of small business success, including how to develop an effective business plan to attract financing.

### *Locally-Based Services*

The Ontario Government supports the development and introduction of locally-based services for entrepreneurs. Four of these initiatives are outlined below.

#### *Community Small Business Centres*

The province has provided an average of \$630,000 in assistance to each of these small business incubators since the first one was introduced in 1985. The 7 centres, located in Thunder Bay, London, Waterloo Region, Brantford, City of York, Cornwall, and Kanata, provide new ventures funded by local residents with a variety of support services, including low-cost operating space, common services and on-site advice. The centres also provide the general community with an outreach program of general service. The centres receive funding, usually applied against various capital costs, from local cosponsors. Up to May 31, 1988, the Centres had assisted 191 new firms to create 674 new jobs, at a cost per job of \$1,780.

#### *Self-Help Centres*

Self-Help Centres are centrally located community resource centres. Each is staffed by an entry-level consultant to deliver advisory assistance to local entrepreneurs, and each provides a library of business materials and a quiet work environment for planning or problem solving. Since the concept was developed by MITT in 1985-86, a total of 13 Self-Help Centres have been opened, costing the province an average of \$35,000

<sup>9</sup> Of the total registrants, 739 were from Metro Toronto, 642 from Central Ontario, 377 from Southwestern Ontario and 192 from Northern Ontario. There were also 73 out of province registrations, including 58 from Quebec.

annually. The centres process 3,000 enquiries each year and in 1987-88 directly assisted in the launch of some 500 new ventures.

### 3. University Small Business Consulting Centres

The Government of Ontario supports a total of 15 centres on university campuses throughout the province. The centres provide low-cost consulting services to new and established small businesses by employing the talents of senior business students led by a faculty coordinator. The centres are financed by an average provincial subsidy of \$24,000 per unit and by the revenues generated by the consulting service. In the fiscal year ending March 31, 1988, the centres directly assisted in the start-up of some 350 new businesses which are expected to create about 2,700 new jobs.

### 4. Centres of Entrepreneurship

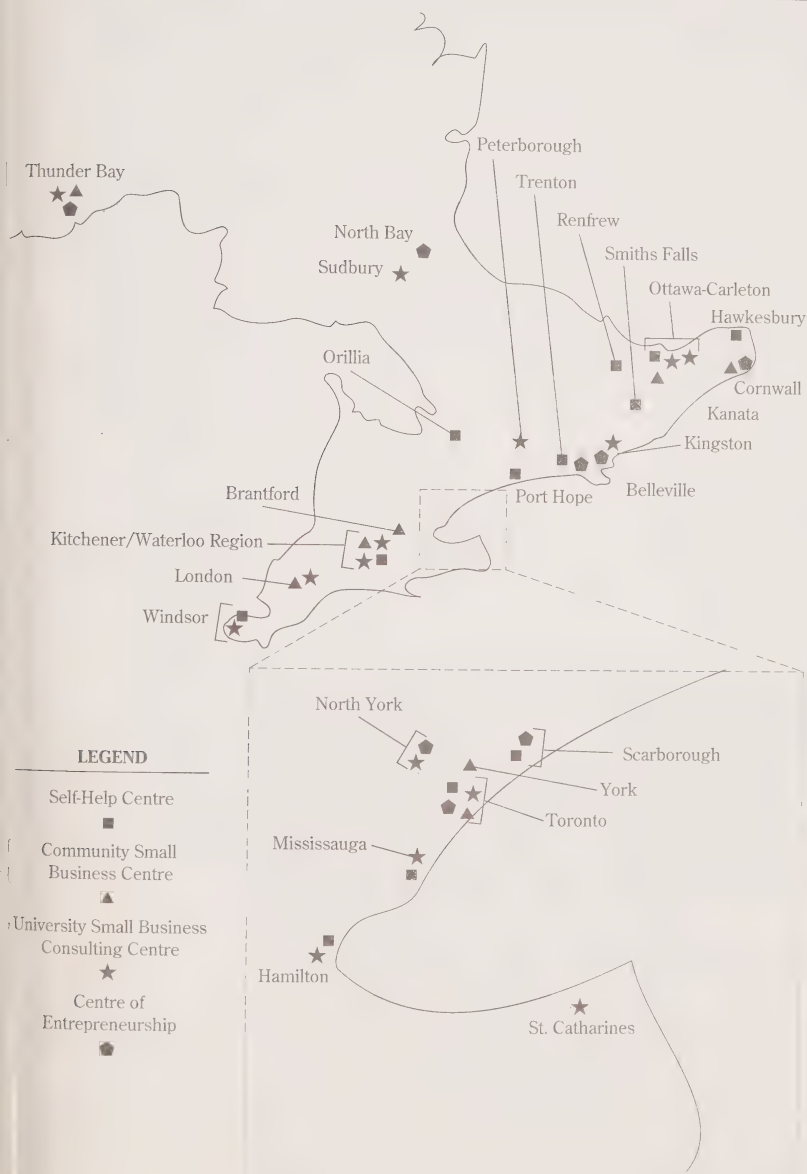
In 1987, the Speech from the Throne announced the establishment of 6 Centres of Entrepreneurship at selected colleges and universities across the province. The centres are intended to provide a focal point for entrepreneurship in postsecondary institutions. Included in their mandate is the development of curricula for entrepreneurial studies, the provision of training courses for teachers and guidance counsellors, and research and dissemination of results. Visits by entrepreneurs form a prominent part of centre activities.

The broad objectives for the centres, their involvement with the private sector and their role as geographically diverse focal points will result in significant improvements in curriculum and a cross-pollination of business and academic expertise across the province.

Funding for the centres is provided through the \$1 billion Technology Fund, allocated for special purposes upon the recommendation of the Premier's Council. Each year, each centre will receive a grant from the province of up to \$150,000, on the condition that an additional \$50,000 is raised from the private sector by way of cash donation or equivalent value in services, such as computer time.

The sites of the various centres are identified on the following map.

**Chart 9.1** *Location of Ontario Locally-Based Services*



## Federal Initiatives

Provincial initiatives supporting entrepreneurship and small business are complemented by federal programs with specific, macropolicy objectives. Two significant programs are the Community Business Initiative and Operation Youth: Enterprise for Youth Employment.

### *Community Business Initiative*

The Community Business Initiative (CBI) is a Federal Business Development Bank (FBDB) program which assists entrepreneurs and their enterprises to help themselves grow and prosper. The first Ontario CBIs were launched in Barrie and Orillia in the autumn of 1986. Since then, 7 others have been or are in the process of being established.

A local advisory committee of established business owners, professionals and community leaders assists the FBDB to identify smaller ventures in the area which need affordable, down-to-earth, "real world" advice to prosper. This identified group of 30 to 32 non-competing owner/managers then benefits from the guidance of a team of experienced resource persons.

A full-time project advisor, who is locally based, organizes 10 month group workshops, which focus on functional areas such as accounting, marketing, human resources, and other skills like time management. Each workshop leader is skilled in the discipline under study.

The local advisor meets each proprietor monthly to review the most recent workshop and its applicability to day-to-day operations. No diplomas or certificates are awarded: the emphasis is on practical learning that helps the entrepreneur make maximum use of resources and maximize the venture's earnings.

The service costs each participating business \$2500 - \$3000 annually. Some 75%-80% of the cost is rebated to the business owners through Employment and Immigration Canada and the Ontario Community Industrial Training Committees.

### *Operation Youth: Enterprise for Youth Employment*

Operation Youth: Enterprise for Youth Employment is a federal, non-profit corporation which was founded in December 1984 by the Canadian Employment and Immigration Commission's National Labour Market Innovation Program. In August 1986, Operation Youth introduced an Entrepreneurship Development Program to help young people establish their own businesses. Funded by a combination of private donations and grants from the federal government, the program provides ongoing

upport to young entrepreneurs during the critical first 3 years of operation through the following services:

- a 3-day training session on starting and operating a small business;
- ongoing advice on every aspect of small business management for 3 years;
- an information system that details the various assistance programs available to young entrepreneurs who are starting small businesses;
- a business collective that groups together, wherever feasible, a number of businesses, facilitating reduced overhead costs and yielding the benefits gained from co-operation with others.

In 1986-87, the program's first year of operation, 234 clients participated in the training sessions. By the end of the year, 165 of them were operating their own businesses.

### **Non-Profit Initiatives**

The recent surge of interest in entrepreneurship and small business has encouraged all sectors to participate in programs and initiatives which provide a variety of services to would-be entrepreneurs. A recent effort by the YMCA is indicative of the role non-profit, non-governmental organizations can play.

#### *YMCA Youth Enterprise*

YMCA Youth Enterprise, a free service which assists young entrepreneurs in planning and starting their own businesses, is targeted to 18 to 30 year olds who are not employed full time. A 10-week training program guides young people through the startup process, focusing on the essentials of bookkeeping, marketing, finance, and operations. Follow-up consulting assistance is also provided during the first year of operation.

The program objectives are to help budding entrepreneurs:

- learn how to secure start-up money;
- prepare a business plan and venture loan application;
- understand how to forecast sales, promote the business, keep the company books;
- avoid the pitfalls before and after start-up with one-to-one consulting.

The program, the result of a collaboration among Employment and Immigration Canada, YMCA Canada, and the YMCA of Metropolitan Toronto, receives special support nationally from IBM Canada Ltd.



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# The Small Business Owner's Guide

Reports such as *The State of Small Business, 1988* are written more for persons seeking an overview of small business research and studies than for the practising small business owner. This section of the report, however, is designed as a short "how to" section for you, the small business owner.

## What Trends are Emerging in Ontario?

### *Global Competition*

In the increasingly global world of commerce, economic units such as Ontario need to trade goods and services with the rest of the world in order to prosper. This requires companies which have the products and corporate resources to export to other countries. To export successfully, however, you have to be able to meet the quality and prices of world class competitors, many of which have cheaper costs than Canadian firms. Thus, to be competitive on a world scale means that a firm must be on the verge of being a multinational corporation, certainly a far cry from a small business.

At any given time, there are multinationals which are growing and others that are in decline. Many Canadian multinationals are companies whose products are in danger of being overtaken by lower-priced competitors. Ontario needs companies which have products the quality or performance of which commands a price premium over the products of their overseas competitors. The recent Premier's Council Report identified threshold firms - medium-sized, rapidly growing firms poised to become multinationals if they can successfully become large, exporting firms - as a focus for government development efforts.

One implication for small business, if the Premier's Council recommendations become government policy, is that the government may focus more on developing threshold firms than on developing small business. Small businesses that are in high-growth and high-value-added sectors will find more government support than those which are not. Businesses in these non-traded sectors may have to function with less government assistance.

Another factor you may want to consider is what sector to choose for new business. Often, an owner just starts a business in a field of interest, which is fine. However, a strategic approach would be to consider:

- Do I want the company to rapidly grow into a larger organization?
- Do I have product ideas which could be sold in the rest of the world or at least the U.S. market?
- Am I prepared to cope with the types of problems that success can bring to a company?
- Can I identify certain business sectors which have more government support than others at this time?

If the answers to these questions are yes, then you could try to start your company in one of these supported areas. By doing so, you will ensure that you are opening your company in a favourable environment where there will be continued interest and support for your business by senior levels of government.

### *Technology*

A second trend involves technology (discussed in detail in Chapter 5). High technology products and advanced technology production methods will become increasingly important in the Ontario of the future.

Hi tech products are a rapidly growing market segment with both consumer and industrial customers. These products can be sold at a premium over traditional or commodity-type products, and are less subject to competition from emerging industrialized countries. As such, their local production is highly prized by Ontario planners. Small businesses which specialize in high technology products can expect good government support, and should prove attractive to other sources of capital such as the venture capital funds.

Advanced technology production methods include robotics, computer-controlled machinery, computer-aided design (CAD), automated materials handling, and advanced construction materials. These methods all have the computer as a common element. Since the computer can do repetitive, time-consuming work very efficiently, the "lost" time processes in design, engineering and production can be radically shortened allowing greater flexibility in production and a concomitant reduction in costs and personnel. For example, if the set-up time on a machine is reduced from days to minutes, much shorter production runs will be possible. Savings in materials and finished goods inventories will result. Production will be able to more closely match sales, and your company will save money.

Technology is important for a small country like Canada, which has smaller markets and must compete against the U.S. and Japan, which can afford long production runs and dedicated production lines. The

Increased flexibility offered by these new technologies can mean cost-effective competition even by smaller firms.

There is help available to small business owners. You can visit sites which are using these technologies. You can use the facilities provided by the provincial government, such as the technology centres and the Ontario Research Foundation, as resource bases to help you make decisions in unfamiliar areas. You can avail yourself of training courses offered by community colleges. Federal organizations such as the National Research Council (NRC) have been stepping up their collaborative associations with industry and represent a valuable resource which you can tap.

The National Research Council's Industrial Research Assistance Program (IRAP) is designed to assist the transfer of technology to Canadian industry. The field service component - the most visible - consists in Ontario of 44 Industry Technology Advisors (ITAs) based in a number of locations across the province, including the NRC itself, the Ontario Research Foundation, universities, colleges and the Ontario Centre for Advanced Manufacturing. Each ITA brings industry experience to a client base of approximately 120 small and medium enterprises. The ITAs often work in conjunction with MITT industrial development officers; the ITAs provide the technical guidance while MITT staff provide marketing and management support.

The Ontario Centre for Advanced Manufacturing (OCAM), which functions as an advisor or consultant to Ontario business, finds about one-third of its 450 annual clients are small businesses. OCAM has discovered that improving manufacturing organization is often more important than adopting high technology for many Ontario firms. The adoption of advanced technology should be evolutionary, not revolutionary. OCAM lists 7 organizational steps to contemporary manufacturing success:

1. simplify operations as much as possible;
2. recognize your workers as the real production experts;
3. emphasize quality control, so that quality becomes part of the process, not just the final product inspection;
4. make a commitment to preventive maintenance on the shop floor;
5. adopt Just-In-Time production methods;
6. encourage continuous improvement in all aspects of production;
7. use appropriate (not necessarily the latest) technology.

### *Free Trade*

Unlike true free trade, the bilateral treaty recently negotiated between

Canada and the U.S. (the Free Trade Agreement or FTA) leaves most legislation regarding tariffs in place. The treaty is to supersede this legislation in the arena of U.S.-Canadian trade; however, U.S. trade remedies are left undisturbed. It remains to be seen how well the FTA's non-binding settlement procedures will function when disputes arise.

Most reliable and repeated surveys find that 35-40% of small business owners believe the FTA will be good for their business, while 10% are opposed. The remainder believe that the FTA will have no effect on their business.

Advantages of the FTA include: the general feeling of entrepreneurial optimism that accompanies a major change in the economic climate; the opportunity for business expansion represented by the U.S. market; lower Canadian labour costs for the next few years; less stringent U.S. approval and labelling standards for products.

On the downside, many firms which are content to service the domestic market may find themselves competing with cheaper American products. Also, small companies may be hurt if their branch plant customers are closed down or repatriated.

## **Government Assistance in Exporting and Procurement**

Two markets which are sometimes overlooked by new small businesses are the export market and government purchasers. Research has shown that small firms which export and sell to governments grow faster and are more successful than similar firms which don't. While both these markets can involve extra risks for you, the risks are balanced by the larger potential markets.

### *Exporting*

When Canadian firms export, they almost always do so to the U.S. This is partly because of convenience. Serving the U.S. market usually mean little product modification. Additionally, the product instructions and guarantees can be in English. All that is really needed is a marketing or service network, and sometimes this can be handled from the Canadian base.

Servicing Europe or the Orient is more difficult as it involves diverse cultures, distinct languages, and varying technical standards. As well, traditional standards of design and functionality may be higher than in the Canadian market, limiting the ready acceptance of Canadian products. Finally, it is more difficult to service these markets from a Canadian base and an indigenous marketing organization or agent are usually



required.

There are government programs in place to help you export your goods. These programs acquaint potential exporters with new markets (and vice versa) and reduce the added risks involved with exporting.

The Ontario Ministry of Industry, Trade and Technology (MITT) has a comprehensive range of programmes to help Ontario small businesses exploit export opportunities.

*Commercial Intelligence.* MITT's international marketing consultants in Ontario and in trade offices worldwide provide on-going information on the latest export opportunities of interest to Ontario business and key international market data.

*Export Education and Counselling.* MITT's exports consultants help you develop a marketing strategy, determine priority markets and identify resources required to carry out that strategy. They also provide specific information on export procedures and regulations. Publications on all aspects of exporting are available.

*Contacts in the Export Marketplace.* MITT organizes trade missions to foreign markets, participates in international trade shows, makes appointments with local buyers, agents and distributors, and brings key agents, distributors or buyers from around the world to Ontario to meet with Ontario business.

*Export Financing.* Through the Ontario Development Corporation's Export Support Loan Programme, financing is available for export receivables. Through MITT's Trade Expansion Fund, support is available for marketing costs, on a dollar for dollar basis, from \$5,000 up to \$15,000 over any 12-month period. The Export Manager for Hire programme offers an employer 50% of the salary paid to a new export manager, to a maximum total contribution of \$15,000. The International Marketing Intern Programme provides similar financial assistance to firms interested in hiring recent graduates to work in exporting.

The best known federal programs are those offered through the Export Development Corporation (EDC). The EDC provides insurance, financing and guarantee services for exporters. The major program, Export Credit Insurance, guarantees 90% of foreign receivables, thus reducing the uncertainties stemming from customer bankruptcy and defaults or interruptions due to currency controls or war. The EDC provides more than 20 types of export insurance to cover different export needs. The EDC can also supply credit reports on foreign buyers, export loans to finance up to 85% of the transaction for the buyer, and information regarding other agencies which assist Canadian exporters.

Another agency, the Canadian Commercial Corporation (CCC),

specializes in facilitating export sales by Canadian suppliers to foreign governments and agencies, such as the United Nations. The CCC can assist you by simplifying the process, reducing paperwork and onerous terms, and adding credibility in the eyes of the foreign buyer.

A third source of help is the Department of External Affairs (DEA). DEA has trade officers in most embassies and consulates who can help you penetrate individual markets. DEA also sponsors trade shows, selling trips and exhibits which introduce Canadian products and producers to foreign markets. DEA uses a computer database called *WIN* which contains information on some 21,000 Canadian companies wishing to export. DEA's *Info Export* group, which can be reached through a toll free number (1-800-267-8376), provides answers and assistance to export questions and problems.

### *Government Purchases*

#### THE PROCESS OF GOVERNMENT PROCUREMENT

Purchases by all levels of government in Canada comprise 15% of the Gross Domestic Product. Servicing the needs of government agencies can be an important source of growth for small businesses. It is important for you to be aware of the agencies and processes used in government procurement.

The most common methods of procurement are the direct purchase from approved suppliers and the solicitation of bids from suppliers on an approved list. Only the federal Department of Public Works uses public announcements of open tenders to any great degree. This means that your business must get itself listed to participate in government purchases. You can register your company on various supplier lists used by governments. The various levels of government publish documents to help businesses get their products or services listed.

Government purchasing policies may include, besides value for money, specific considerations such as Canadian content or regional expansion. The most common is the Canadian-preference policy, designed to penalize suppliers with high foreign content. The supplier estimates the non-Canadian content of the bid, and the bid is assessed a pricing penalty of up to 10% on the non-Canadian portion.

The Ontario Government's Industrial Development Review Process (IDRP) program is designed to foster development of business through the procurement process. IDRP calls for a review of any purchases larger than \$250,000 with the intent of maximizing industrial development.



DRP has not been widely applied and has had negligible impact on purchasing decisions in Ontario, probably because most government purchases are under \$250,000.

The Premier's Council Report found that purchases were spread so widely among Ontario business that no one firm acquired a base large enough to become a competitive, low-cost producer which could use its Canadian production as a springboard to becoming an international exporter. The Council recommended a strategic procurement plan to target larger contracts aimed at businesses which have the resources and are poised to enter the world market. Such a program, if implemented, will obviously have ramifications on small business suppliers.

While it may be effective in some cases, professional lobbying is expensive and often of questionable ethical value. It is generally not an option for small business. However, there is value in having the products, services and capabilities of your firm known to the members of the department or committee which evaluates bids and purchases, especially where there is a large service or expertise component to the bid.

You should do everything in your power to make sure that information flows smoothly between the procuring department and your firm. The bids should be comprehensively filled out, clear, unambiguous, and followed up by personal contact where possible. In the event of a losing bid, you should investigate the reasons and causes in order to better plan your next bid.

Personal contact with the end user agencies and ministries helps to keep the departments informed about your product or service and gives you direct feedback about your prices, service and product quality and functionality.

The federal government also sponsors procurement outlook conferences and supplier briefings to alert the business community to the coming needs of the government.

#### OVERCOMING BARRIERS TO PARTICIPATION

There are several barriers to the active participation of small businesses in the government procurement process.

From the government's point of view, dependability of supply is a major consideration. This means that you must convince the buying agency that you are stable and have the necessary financial resources to complete your commitments under the procurement agreement. This will not be a problem if you are supplying a standard product out of your normal production run. However, if your firm is new or unknown, or if

the government contract comprises a significant share of your production run, failure to do this bridge-building during the bidding process may result in your being passed over even if you have the best price.

From the small business point of view, the major barrier is the large amount of regulation and paperwork which may accompany the procurement process. This results in higher costs of doing business. When coupled with the government's desire for economy, it can also result in contracts with a lower than normal gross margin - a dangerous situation for many small businesses. In addition, if the government contract is a significant portion of your company's output, you must consider the effects of "lumpy" production runs and what would happen to your firm if it did not win a similar contract next year.

Some costs, such as those incurred in developing and certifying components to a military standard for the Department of National Defense, cannot be avoided. Other substantial upfront costs, such as the time spent in preparing the design or bid itself, can generally be recovered if your firm wins the bid. However, if your firm loses the bid, then the costs must be absorbed internally. Even when a tender is won, paperwork may drag out the process of payment beyond the norm for your industry, and your firm will have to absorb the carrying costs involved with the implicit financing of receivables.

To lower the cost of bidding and to maximize the chances of winning a bid, place yourself in the position of the persons who will be awarding the bid. Standard government forms should be used, properly and completely filled out, to provide the government with the basic information necessary to evaluate the bid. Additional material which highlights the advantage of your product can also be attached, in order to set your bid apart from the rest. You will want your bid to stand out in terms of completeness and professionalism as well as price, since price is seldom the only criteria used in selecting a bid. Pay careful attention to the information flow between your firm and the government, keeping your profile high and listening for clues to what the government really wants.

It is important to understand the differences between the various types of government bids: RFQs (request for quote), RFPs (request for proposal), and RFTs (request for tender) each require a different type of response from would-be suppliers. In particular, a request for proposal is generally looking for some creative input and ideas in addition to the specific requirements listed in the request.

Finally, the procurement process of the federal government is centralized in the Department of Supply and Services and the Department of Public Works, both located in Ottawa. The Ontario procurement process

is decentralized in the various Ministries, parts of which are increasingly being dispersed to smaller regional Ontario centers. Thus, different approaches may be needed for the two levels of government.

## **What About Growth?**

Growth is a two-edged sword for small business. Several chapters in this report deal with the problems, financial and managerial, that growth can bring.

Financial problems caused by growth are generally simple to understand - optimum rates of growth in sales and production almost always outstrip the ability of the firm to finance them from internally-generated cash flows. If a firm is solvent and well-run with good prospects, it will be able to raise money from the sources mentioned in Chapter 8. However, raising funds for expansion is much more difficult for a struggling firm.

A large corporation may have several vice-presidents to handle various management tasks in the company; the typical small business has only one or possibly two senior executives. Great demands are placed on the time and abilities of the owner - you. While you may be a terrific entrepreneur or engineer or salesperson, it is extremely unlikely that you are good at all the functions that a small business requires, especially during periods of rapid growth and transition to a larger firm. At this point, you may have to relinquish some personal control by hiring competent specialists in various fields and delegating managerial responsibility to them. It is amazing how many entrepreneurs cannot manage this transition without first driving the company to the brink of receivership.

The Ontario government is keenly interested in helping companies achieve rapid growth. The continued growth and sophistication of the venture capital market will help to address the financial problems involved with growth. But the management problem, knowing when to let go and delegate, may not be so easily solved, although education can help.

As we head into the 1990's training is becoming increasingly important if small businesses are to flourish in the Ontario economy. Increased global competition means that success will depend on the ability to match the quality standards and prices of international competitors. A well-trained, highly-skilled workforce will take you a long way toward meeting - or surpassing - the performance of competitors.

Sophisticated technologies in the workplace require that your employees be trained to work with increasingly complex equipment. Roughly one in ten jobs in Canada now depends on information technology.

gy. Projections point to increased use of process technologies in manufacturing, particularly in areas of automated manufacturing and computer-aided design. These new technologies are costly to install and need trained personnel who know how to service and use them.

In many instances, workers must now be trained in a broader range of areas. Management skills and marketing expertise will be important in all sectors. Analytical and interpersonal skills like team work, problem solving, conflict resolution and communication will be required – particularly in “people-oriented” service companies where employees are a firm’s most valuable resource.

Small businesses have often hired employees who got their training in larger companies, but this may have to change. The rapid rate at which new technologies are introduced will require that such training be available on an ongoing basis even in the smallest firms. It is important that you adopt the practice of frequent training to meet your company’s varied skill needs.

The provision of adequate and ongoing training is a particular challenge for the smaller employer, who typically lacks a well-developed training infrastructure or specialized training personnel. The costs of training put small business at a disadvantage relative to larger companies and foreign-owned branch plants. It is important that you have access to outside expertise to assist in the development of individualized training plans and bring into reach the appropriate training programs.

## **How to Get Financing for Your Business**

There are two types of financing which are generally available - equity and debt.

Equity is money advanced to the firm in return for a portion of the ownership of the firm. The people who put equity capital into the firm become partial owners of the firm and participate in any future profits (and losses). The advantage of equity funds is that they do not have to be repaid, nor do they need to be serviced by regular interest payments. The disadvantage is that some of your ownership is given up. Owners participate in any upside growth in the firm but also assume the risk of business failure; thus, equity funds are considered to be a higher-risk investment.

Debt is borrowed funds advanced to the firm in the expectation that they will be repaid, either at a given time (demand loan) or regularly over a given period. In return, interest is charged for the use of the money. You don’t surrender any ownership. However, in order to secure the



loan, you and the firm will usually be asked to pledge collateral of an amount at least equal to the money advanced. If the loan is not repaid as agreed, the collateral may be taken over by the lender to satisfy the obligation.

Small businesses generally use a combination of both debt and equity funds when they start up. The equity capital often comes from the friends and family of the entrepreneur, while the borrowed funds are obtained from a chartered bank and are often secured by personal assets such as the family home. A third source of money is grants or loans available from some levels of government. Not all small businesses choose to use these funds, often because of the relatively small amounts of money available and the large amount of paperwork and regulation which accompanies some of these programs. Other sources of money are detailed in Chapter 8.

Owners invariably underestimate the time and expenses involved in starting a new venture, and overestimate the revenues which they expect to generate. The result is that the company almost always faces a financial shortfall sometime in its early existence which can put it into bankruptcy unless new emergency funds are found - and emergency funds are extremely hard to come by. This can even happen to businesses which are selling everything they are producing. To allow for this, you should raise more money than you think is needed in the initial round of financing. This can form a strategic reserve against the many factors which can hurt a small business in its formative stages.

### *Debt Financing*

Debt financing for small business is handled mainly by the chartered banks in Canada. Even government assistance programs are often administered by the banks. Small business comprises about 25% of the loan portfolio of the chartered banks.

It is important to remember that bank money is not risk capital. Banks will want collateral and evidence of your personal financial stake in the new enterprise. Your chances of success with the bank will be increased if your business plan is well-thought-out. Loans to small business are not one-time events, but the first step of a long-term borrowing relationship, which must be nourished with timely information and trust.

In personal finances, many people eschew debt, but this may not be the wisest policy for businesses. Moderate amounts of leverage can increase the profitability of many businesses, and companies which don't use leverage may not be able to grow as fast as those that do.

If a bank refuses to lend you money, but your business plan is sound, there are several government programs which may help. The first is the Small Businesses Loans Act (SBLA), which is a federal program which guarantees the bank 85% of the loan made to a business which meets the guidelines. This allows the banks to fund investments which are riskier than the norm. The major restriction under the SBLA is that the money must go toward the improvement or acquisition of productive assets. It can't be used for working capital or operating expenses.

Another source of funds is the Federal Business Development Bank (FBDB), which has a mandate to develop Canadian business and specializes in financing business projects which have been turned down by banks. To allow for the larger risks involved, the FBDB charges higher interest on its loans. (It also provides management services, seminars and training and can be a valuable resource for your business even if you are not a loan client.)

There are several provincial programs administered by The Development Corporations. With offices in all areas of the province, The Development Corporations provide term loans, interest subsidies, and guarantees to higher-risk enterprises. The New Ventures Program, which is run by the Ontario Development Corporation, offers loan guarantees to start-up ventures. Interest only is payable during the first year of the loan. The business is also required to complete a business review every 6 months - this requirement helps organize the affairs of those borrowers which may not be following a business plan.

### *Equity Financing*

The first equity financing often comes from family or friends who advance money to you in return for some stock in the company. Most start-ups never use a formal venture capital firm for equity funds. But as your company grows, it may need access to funds available from the organized Canadian venture capital industry.

The Canadian venture capital industry is not as large as in the U.S., but it is growing rapidly as more firms enter the market and large pension funds designate some of their resources toward venture funds.

Many entrepreneurs are reluctant to give up equity in their company as they fear loss of control or profits. However, venture capital firms are almost never interested in control, as they want you to run the company rather than themselves. And since the rate of growth of a well-funded company can greatly exceed that of a cash-starved one, a venture investment can result in higher profits for the owner as well.



Venture capital firms are interested in selling out their investment in 3-5 years, as most of their return is going to be in capital gains, not in dividends. Thus, they are more likely to invest in firms which are in the high-growth stage, rather than in the start-up or mature phase. Because of this, the various levels of government have been trying to provide seed money to fill the gap, so that venture capital funds will be available to start-up firms as well.

Ontario's Small Business Development Corporations program allows private and corporate investors to set up a small business development corporation (SBDC) which then invests in a small enterprise. Investors get a cash grant or tax credit equal to 25% of their investment from the government, and still participate as shareholders in the small enterprise's growth.

The Ontario Employee Share Ownership Plan (ESOP) provides grants to eligible employees purchasing shares of their employer corporation under an employee share ownership plan that has been registered with the Ministry of Revenue. Employees purchasing shares under a registered plan may apply for a grant equal to 15% of the purchase price of the shares to a maximum annual grant of \$300. Allowing employees to own shares in your business can be very beneficial, not only because it provides you with a source of extra equity capital but also because it raises employee interest in the firm's profit potential, which can lead to higher employee morale and a greater incentive to see the company succeed financially.

Innovation Ontario, a sister corporation to ODC, helps to start new technology-based businesses by providing start-up investment. This investment can then either be repurchased by the firm over time (like repaying a loan) or divested through a sale of the shares to a third party, depending on the terms negotiated between the company and Innovation Ontario. Innovation Ontario also provides technical, marketing and business assistance to its investments.

## **Government Assistance Programs**

Money is perhaps the most visible need of a small business, but it's not necessarily the most critical. Even a well-funded company can fail under bad management. The importance of entrepreneurship to the economic health of the country is widely recognised, and there are many government programs aimed at educating and assisting those who have an interest in running their own business.

There are many excellent books available in bookstores and libraries

which will guide you through the preparation of a business plan. Ontario's Ministry of Industry, Trade and Technology (MITT) offers a seminar and publishes a book on *How to Start a Small Business in Ontario* which give practical information on business plans. The Federal Business Development Bank also offers a course on small business start-up.

Almost all Ontario universities have a small business consulting service which provides low-cost consulting services to small businesses. Two-thirds of these centres are open year-round, while the remainder are open during the summer months.

Six Centres of Entrepreneurship at selected colleges and universities, though intended for academic work on entrepreneurship, also invite outside experts to review business plans and advise rookie entrepreneurs.

Self-Help Centres have been started in many communities to provide a library of business material and an entry-level consultant to provide assistance to people planning a new venture.

The provincial educational television network, TVOntario, runs a number of programs, such as the popular series *Frontrunners*, that focus on starting and running your own business. Some programs can be taken for community college credit. The programs are repeated at various time through the year.

Through its two Start Up programs, Youth Venture Capital and Student Venture Capital, the Ontario Ministry of Skills Development offers interest-free loans to young people with good business ideas. The programs are operated in co-operation with The Royal Bank of Canada and the Ontario Chamber of Commerce through local chambers of commerce.

The Community Business Initiative (CBI) is a Federal Business Development Bank (FBDB) program which assists entrepreneurs and their enterprises to help themselves grow and prosper. The emphasis is on practical learning that helps you make maximum use of resources and maximize your venture's earnings.

Operation Youth, a federal, non-profit corporation, runs an Entrepreneurship Development Program to help young people establish their own businesses. The program aims to provide young entrepreneur with business and managerial skills and a level of professional advice not otherwise available. It provides ongoing support during the critical first years of operation through the following services:

- a 3-day training session on starting and operating a small business
- ongoing advice on every aspect of small business management for

3 years;

- an information system on assistance programs available to young entrepreneurs;
- a business collective that groups together a number of businesses to facilitate reduced overhead costs and yield the benefits gained from co-operation.

YMCA Youth Enterprise, a free service which assists young entrepreneurs in planning and starting their own businesses, is targeted to 18 to 30 year olds who are not employed full time. A 10-week training program guides young people through the startup process, focusing on the essentials of bookkeeping, marketing, finance, and operations. Follow-up consulting assistance is also provided during the first year of operation.

Training assistance geared to the particular needs of Ontario's small businesses is available through the Ministry of Skills Development. The Ministry's Ontario Skills Development offices, located across the province in the Community Colleges of Applied Arts and Technology, will assist you in identifying your training needs and drawing up detailed training plans.

The Ontario Skills Training Program, administered through the Ontario Skills Development Offices, provides financial subsidies to defray training costs. A company with 200 or fewer employees can receive up to 50% of direct training costs.

Through the Apprenticeship program, you can provide valuable training in the skilled trades by hiring trainees who then learn trades through a combination of on-the-job training and formal study programs. The Trades Updating program offers an opportunity for you to update the knowledge of your skilled tradespeople. The program is offered free of charge in the Community Colleges of Applied Arts and Technology, at the workplace or by outside training agencies.

Also provided at no cost to you is the Technicians and Technologists Skills Updating program, which emphasizes training in new and emerging technologies such as computer-aided design, technology management and communications technologies.

Under the Ontario Basic Skills in the Workplace Program, the Ministry of Skills Development will also fund up to 100% of training costs where you sponsor basic literacy and numeracy upgrading for employees.

Through the Canadian Jobs Strategy, the federal government also administers training programs of interest to small businesses. For example, the Skill Shortages program offers you assistance to upgrade the

skills of your employees in federally-designated occupations of existing or potential skill shortages. The Skill Investment Program assists workers to obtain new skills in response to technological and economic change.

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# Useful Addresses and Telephone Numbers for Further Information

- For information on all MITT programs of assistance to small business, you can call the Small Business Toll-free Hotline: 1-800-387-6142.
- MITT also sponsors seminars and issues several publications, including the one you are holding. Of particular interest to would-be entrepreneurs is the book *How to Start a Small Business in Ontario*, which has practical information on business plans, government assistance and legislation affecting small business ventures. Contact:

Publications Ontario

880 Bay St.

Toronto, Ontario M7A 1N8

(416) 965-6015

in area code (807), ask operator for Zenith 67200;

in other area codes, 1-800-268-7540.

- To subscribe to *Small Business Ontario*, write to:

Small Business Ontario

7th Floor, Hearst Block

900 Bay St.

Queen's Park

Toronto, Ontario M7A 2E3.

- For information on the financial assistance programs offered by The Development Corporations, contact:

5th Floor, 56 Wellesley St. West

Toronto, Ontario M7A 2E7

(416) 965-4622.

- Information on Innovation Ontario may be obtained from:

Innovation Ontario Corporation  
7th Floor, 56 Wellesley Street West  
Toronto, Ontario M7A 2E7  
(416) 963-5717.

- The *Small Business Problem Solver* series of pamphlets is available from your local branch of the Bank of Montreal. Other banks in your area may also have publications to assist you.
- The Canadian Bankers' Association publishes an excellent handbook entitled *Financing A Small Business - Working With Your Bank*. To receive a copy, write to:

The Canadian Bankers' Association  
Box 348, Suite 600,  
2 First Canadian Place,  
Toronto, Ontario M5X 1E1.

- A summary booklet and other information is available on the SBDC program by writing to:

Small Business Development Corporations Program  
Ministry of Revenue  
33 King St. West  
P.O. Box 625  
Oshawa, Ontario L1H 8H9.

- For information on the Employee Share Ownership Plan (ESOP), call collect (416) 430-ESOP.
- For information on the programs of the Federal Business Development Bank, write:

Federal Business Development Bank  
P.O. Box 335,  
Stock Exchange Tower Station  
Montreal, Quebec H4Z 1L4  
(514) 283-5904  
(416) 973-0062

or call the local branch in your area.



- For more information on Ontario's export programmes, contact your local MITT office or call or write:

International Marketing  
 5th Floor, Hearst Block  
 900 Bay Street  
 Toronto, Ontario  
 M7A 2E1  
 (416) 963-2500  
 Fax: (416) 965-7791

- The export trade information line at the federal Department of External Affairs can put you in touch with other federal agencies, such as the Export Development Corporation and the Canadian Commercial Corporation, as well as provide information on DEA programs such as WIN and Canadian trade promotions. Call Info Export: 1-800-267-8376; (613) 993-6435 in the Ottawa region.
- For information on the Small Business Consulting Centres at each Ontario university campus (except the University of Guelph), phone the Faculty of Business at your nearest university for advice on contacting your local centre.
- The locations of the 6 Centres of Entrepreneurship are:  
 The Ryerson Centre of Entrepreneurship;  
 The North Bay Centre of Entrepreneurship (Canadore College and Nipissing College);  
 The Lakehead University/Confederation College Centre of Entrepreneurship;  
 Enterprise York (at York University);  
 The Eastern Ontario Centre of Entrepreneurship (at Queen's University, St. Lawrence College and Loyalist College);  
 The Centennial College Centre of Entrepreneurship.
- For information on TVOntario courses, contact TVOntario at 1-800-268-6255.
- More information on the Start Up program - interest-free loans available through the Ministry of Skills Development for young people with good business ideas - is available from local chambers

of commerce, branches of The Royal Bank, any high school, community college or university placement centre in Ontario, or by calling the Youth Hotline at 1-800-387-0777.

- For information on the Community Business Initiative, contact the FBDB at (416) 973-1144.
- For information on Operation Youth, phone (416) 861-1812.
- For information on YMCA Youth Enterprise, contact your local YMCA; in Toronto, phone 651-0010.
- For information on OCAM, contact:

Ontario Centre for Advanced Manufacturing  
190 Attwell Drive, Suite 402  
Rexdale, Ontario M9W 6H8  
(416) 675-4363.

- You can get your product or service listed on the Ontario government's centralized data base by filling out a Supplier Information Request Form, available from:

Supplier Information Service  
6th Floor, Ferguson Block  
Queen's Park  
Toronto, Ontario M7A 1N3  
(416) 965-6937.

- For a free copy of *Ontario's Public Sector Market*, a book on how to do business with the Ontario government, call MITT's Business Development Branch at (416) 965-1809.
- Information on all Ontario Ministry of Skills Development training programs and services is available through the toll-free Training Hotline: 1-800-387-5656.

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# Le guide du propriétaire de petite entreprise

Des rapports tels que *La situation des petites entreprises en 1988* sont destinés surtout aux personnes qui ont besoin d'un aperçu des recherches et des études effectuées sur les petites entreprises, plutôt qu'aux exploitants des petites entreprises en tant que tels. Cependant, la présente partie du rapport constitue en quelque sorte un bref guide de démarrage conçu spécialement pour les propriétaires de petites entreprises.

## Tendances en Ontario

### Concurrence sur le plan mondial

Dans le monde du commerce, où tout se fait de plus en plus à l'échelle mondiale, les entités économiques telles que l'Ontario doivent vendre des biens et des services au reste du monde pour pouvoir prospérer. Il faut donc que les compagnies aient des produits à exporter et les ressources qui leur permettent de le faire. Cependant, pour réussir dans le domaine de l'exportation, il faut vendre des produits moins chers et de meilleure qualité que ceux de ses concurrents qui, dans de nombreux cas, ont des coûts d'exploitation bien inférieurs à ceux des compagnies canadiennes. Ainsi, pour qu'une société soit concurrentielle sur le plan mondial, il faut qu'elle soit sur le point de devenir une multinationale, ce qui n'est certainement pas le cas des petites entreprises.

Parmi les multinationales, certaines prennent de l'expansion, et d'autres régressent. De nombreuses multinationales canadiennes risquent d'être dépassées par des concurrents qui vendent leurs produits moins cher. L'Ontario a besoin d'entreprises qui fabriquent des produits dont la qualité ou le rendement justifie un prix plus élevé par rapport aux produits de leurs concurrents de l'étranger. Le rapport du Conseil du premier ministre, publié récemment, a identifié les entreprises qui devraient recevoir un appui particulier du gouvernement, c'est-à-dire les entreprises moyennes à croissance rapide, qui pourront devenir des multinationales si elles réussissent à faire beaucoup d'exportations.

Si les recommandations du Conseil du premier ministre sont mises en œuvre par le gouvernement, il est possible que ce dernier accorde plus d'aide aux entreprises moyennes en pleine croissance qu'aux petites entreprises. D'autre part, les petites entreprises qui connaissent une

croissance importante dans des secteurs à forte valeur ajoutée recevront plus d'aide du gouvernement que les autres.

Par ailleurs, il peut être utile pour les entrepreneurs de bien réfléchir au secteur d'activité de leur nouvelle entreprise. Il arrive souvent qu'un entrepreneur se lance simplement dans le domaine qui l'intéresse, mais dans le cadre d'une réflexion approfondie, il peut se poser les questions suivantes :

- Est-ce que je veux que ma compagnie prenne beaucoup d'expansion?
- Mes produits pourraient-ils être vendus sur le marché international, ou au moins sur le marché américain?
- Suis-je prêt à surmonter les problèmes qui accompagneraient la réussite de ma compagnie?
- Puis-je dire quels sont les secteurs d'activité qui font l'objet d'une aide accrue de la part du gouvernement?

Si vous pouvez répondre à toutes ces questions par l'affirmative, vous pourriez choisir un domaine d'activité appuyé par le gouvernement. Votre compagnie se trouverait dès le départ dans une situation favorable, et elle ferait l'objet d'un intérêt et d'un appui soutenus de la part du gouvernement.

### *La technologie*

La deuxième tendance qui touche les compagnies ontariennes concerne la technologie (traitée en détail au chapitre 5). Les produits et les méthodes de production de pointe prendront de plus en plus d'importance en Ontario dans l'avenir.

Le marché des produits de pointe est un secteur en pleine croissance, tant chez les consommateurs que chez les clients industriels. Ces produits peuvent être vendus plus cher que les produits traditionnels, et font l'objet d'une concurrence moins forte de la part des pays en voie d'industrialisation. La production locale est très prisée par les planificateurs ontariens; les petites entreprises qui se spécialisent dans les produits de pointe peuvent s'attendre à recevoir un bon appui financier du gouvernement, et à avoir accès à d'autres sources de financement, notamment le capital de risque.

Les méthodes de production de pointe font notamment appel à la robotique, aux machines commandées par ordinateur, à la conception assistée par ordinateur (CAO), à la manutention automatisée et aux

matériaux de construction de pointe. Ces méthodes ont en commun l'utilisation de l'informatique. Comme l'ordinateur peut effectuer avec beaucoup d'efficacité des tâches longues et répétitives, le temps normalement "perdu" lors de la conception, de l'ingénierie et de la production peut être considérablement réduit, ce qui permet une production plus souple et une réduction des coûts et du personnel. Par exemple, si l'on peut réduire le délai de mise en route d'une machine pour le faire passer de quelques jours à quelques minutes, les périodes de production pourront être beaucoup plus courtes. Il sera donc possible de réaliser des économies sur le plan des matériaux et des stocks de produits finis. De même, comme la production correspondra mieux aux ventes, la compagnie épargnera.

La technologie est particulièrement importante pour un petit pays comme le Canada, dont les marchés sont restreints et qui doit entrer en concurrence avec les États-Unis et le Japon, qui peuvent se permettre de longues périodes de production et des chaînes de production spécialisées. La souplesse accrue qu'offrent ces nouvelles techniques permet même aux petites entreprises de soutenir la concurrence.

Les propriétaires de petites entreprises peuvent obtenir de l'aide dans ce domaine. Ils peuvent visiter des usines où l'on utilise ces techniques, se servir d'installations du gouvernement provincial, telles que les centres de technologie et la Fondation de recherches de l'Ontario, pour prendre des décisions sur des questions qui ne leur sont pas familières, et suivre des cours de formation offerts par des collèges communautaires. Des organismes fédéraux tels que le Conseil national de recherches (CNRC) ont intensifié leur collaboration avec l'industrie et représentent une source d'aide valable à laquelle on peut puiser.

Le Programme d'aide à la recherche industrielle (PARI) du Conseil national de recherches vise à faciliter le transfert des technologies aux industries canadiennes. Le service de consultation régionale, élément le plus visible de ce programme, est assuré en Ontario par 44 conseillers travaillant dans divers établissements de la province, notamment le CNRC, la Fondation de recherches de l'Ontario, des universités, des collèges et le Centre de technologie de fabrication avancée de l'Ontario. Chaque conseiller fait profiter une clientèle d'environ 120 petites et moyennes entreprises de son expérience industrielle. Les conseillers travaillent souvent en collaboration avec les responsables du développement industriel du MICT; ils assurent l'orientation technique, et le personnel du ministère s'occupe de la commercialisation et de la gestion.

Le Centre de technologie de fabrication avancée de l'Ontario (CTFAO), qui joue le rôle de conseiller auprès des sociétés ontariennes,



compte parmi sa clientèle 450 compagnies, dont le tiers sont de petites entreprises. Le CTFAO a constaté que pour de nombreuses compagnies ontariennes, il est plus important d'améliorer l'organisation de la production que d'adopter des techniques de pointe. La mise en place de ces techniques devrait faire partie de l'évolution de la compagnie, et ne pas donner lieu à des bouleversements. Le CTFAO a divisé l'organisation moderne de la production en sept étapes :

1. Simplifier au maximum les activités;
2. Reconnaître que les travailleurs constituent les véritables experts sur le plan de la production;
3. Mettre l'accent sur le contrôle de la qualité, pour que celle-ci fasse partie intégrante de l'ensemble de la production et non seulement de la vérification du produit final;
4. Effectuer de l'entretien préventif en usine;
5. Adopter des méthodes de production au moment adéquat;
6. Favoriser l'amélioration continue de la production;
7. Utiliser des techniques appropriées (pas nécessairement les plus récentes).

### *Le libre-échange*

Contrairement à ce que serait un véritable libre-échange, le traité bilatéral négocié récemment par le Canada et les États-Unis (l'Accord de libre-échange ou ALE) ne modifie pas la plus grande partie de la législation relative aux droits de douane. Le traité est censé avoir préséance sur cette législation en ce qui concerne le commerce entre les États-Unis et le Canada; cependant, les mesures commerciales auxquelles les États-Unis pouvaient avoir recours ont été laissées en place. L'efficacité de la procédure de règlement non obligatoire prévue dans l'ALE reste à vérifier.

Selon de nombreux sondages fiables, de 35 à 40 pour 100 des propriétaires de petites entreprises croient que l'ALE aura des effets positifs sur leur entreprise, alors que 10 pour 100 y sont profondément opposés. Le reste considère que l'ALE n'aura aucune incidence sur leur entreprise.

Parmi les avantages de l'ALE, on relève le sentiment général d'optimisme qui accompagne tout changement majeur de la situation économique, les possibilités d'expansion que présente l'accès aux marchés américains, des frais de main-d'oeuvre inférieurs au Canada pour les quelques prochaines années, ainsi que les normes d'approbation et d'étiquetage des produits moins strictes aux États-Unis.



Par contre, les nombreuses compagnies qui se contentent d'approvisionner le marché intérieur pourraient se trouver en concurrence avec des compagnies américaines dont les produits sont moins chers, et les petites entreprises pourraient être touchées par la fermeture ou le rattachement des filiales qui font partie de leur clientèle.

### **L'aide gouvernementale à l'exportation et l'approvisionnement du secteur public**

Les nouvelles petites entreprises négligent souvent les marchés d'exportation et la clientèle du secteur public. Des recherches ont permis de démontrer que les petites entreprises qui font de l'exportation et qui vendent leurs produits au secteur public connaissent une croissance plus rapide et réussissent mieux que celles qui ne le font pas. L'importance de ces deux marchés compense les risques que ces derniers présentent pour les petites entreprises.

#### *Exportation*

La plupart des entreprises canadiennes qui font de l'exportation ont pour marché cible les États-Unis. Cela est en partie attribuable à des raisons pratiques. Ainsi, il n'y a que peu de modifications à apporter aux produits, et les modes d'emploi et garanties peuvent être rédigés en anglais. Tout ce qu'il faut faire, c'est établir un réseau de commercialisation et de service, ce dont peut s'occuper parfois le siège social canadien.

Il est plus difficile d'approvisionner l'Europe ou l'Asie, en raison des différences sur les plans culturel, linguistique et technique. Par ailleurs, les normes traditionnelles de conception et de fonctionnement peuvent être plus strictes sur ces marchés qu'au Canada, ce qui empêche l'acceptation rapide des produits canadiens. Enfin, il est plus difficile de servir ces marchés à partir du siège social canadien et il faut habituellement constituer un organisme de commercialisation ou embaucher un représentant sur place.

Certains programmes gouvernementaux sont destinés aux petites entreprises qui font de l'exportation. Ces programmes informent les exportateurs éventuels de l'existence de nouveaux marchés (et vice versa) et permettent de réduire les risques associés à l'exportation.

Le ministère de l'Industrie, du Commerce et de la Technologie de l'Ontario (MICT) offre une vaste gamme de programmes aux petites entreprises ontariennes pour les aider à saisir les débouchés qui existent à l'étranger.

*Information commerciale* : Les spécialistes en commerce international du ministère, en Ontario et à l'étranger au sein des délégations commerciales, constituent une source d'information permanente sur les nouveaux débouchés à l'exportation susceptibles d'intéresser les entreprises ontariennes et sur les marchés internationaux.

*Formation et conseils en exportation* : Les spécialistes de l'exportation du ministère vous aident à élaborer votre stratégie commerciale, à choisir vos marchés par ordre de priorité et à trouver les ressources nécessaires. Ils connaissent en détail les procédures et la réglementation en vigueur. En plus, le ministère publie des brochures sur tous les aspects de l'exportation.

*Contacts dans le milieu de l'exportation* : Le MICT envoie des délégations commerciales à l'étranger, participe aux salons internationaux, rencontre des acheteurs, agents et distributeurs locaux et invite des personnalités importantes de l'exportation, un peu partout dans le monde, à venir rencontrer les entrepreneurs ontariens.

*Financement des exportations* : La Société de développement de l'Ontario aide les entreprises à financer leurs comptes-clients à l'exportation par l'intermédiaire de son Programme de prêt et d'aide à l'exportation. Il y a également le Fonds de développement du commerce extérieur du MICT, qui rembourse entre 5 000 \$ et 15 000 \$ des coûts de commercialisation sur une période de 12 mois. Dans le cadre du Programme d'embauche de directeur d'exportation, le ministère verse à l'employeur la moitié du salaire du nouveau directeur d'exportation, jusqu'à concurrence de 15 000 \$. Le Programme d'embauche de stagiaires en commerce international offre le même genre de financement aux entreprises désireuses de donner aux jeunes diplômés une formation dans le domaine de l'exportation.

Les programmes fédéraux les plus connus sont offerts par l'entremise de la Société pour l'expansion des exportations (SEE). La SEE fournit des services d'assurance, de financement et de garantie aux exportateurs. Son principal programme, l'assurance des crédits à l'exportation, garantit 90 pour 100 des comptes-clients étrangers, ce qui compense l'incertitude relative à la possibilité de faillite du client, ou de défaut ou d'interruption de paiement, en raison de restrictions touchant les devises ou d'un conflit armé. La SEE vend plus de 20 types d'assurance exportation qui varient selon les besoins. En outre, elle fournit des rapports sur la solvabilité des acheteurs étrangers, offre des prêts à l'exportation servant à financer jusqu'à 85 pour 100 des achats effectués par les clients étrangers, et donne des renseignements concernant d'autres organismes qui peuvent aider les exportateurs canadiens.

Un autre organisme, la Corporation commerciale canadienne (CCC), facilite les exportations de fournisseurs canadiens destinées à des gouvernements et à des organismes étrangers, tels que les Nations Unies. La CCC peut aider les petites entreprises à simplifier leurs activités d'exportation en réduisant leur coût, ce qui leur donne de la crédibilité aux yeux des acheteurs étrangers.

Le ministère des Affaires extérieures (MAE) constitue une troisième source d'aide. Dans la plupart des ambassades et consulats du Canada, le MAE emploie des agents commerciaux qui peuvent aider les petites entreprises à s'infiltrer dans certains marchés. En outre, le ministère participe aux foires et des missions commerciales ainsi que des expositions qui permettent de présenter les produits et les producteurs canadiens sur les marchés étrangers. Le MAE utilise une base de données informatique appelée WIN qui contient des renseignements sur quelque 21 000 compagnies canadiennes voulant faire de l'exportation. Le service *Info Export* du MAE, qui offre des renseignements et de l'aide aux exportateurs, peut être rejoint sans frais au numéro 1-800-267-8376.

### *Achats effectués par le secteur public*

#### APPROVISIONNEMENT DU SECTEUR PUBLIC

Les achats effectués par tous les échelons de gouvernement au Canada représentent 15 pour 100 du produit national brut. En répondant aux besoins des organismes gouvernementaux, les petites entreprises peuvent croître. Il est donc important de connaître ces organismes ainsi que les procédés qui gouvernent l'approvisionnement du secteur public.

Les méthodes d'approvisionnement les plus courantes sont l'achat direct auprès de fournisseurs autorisés et les appels d'offres communiqués à des fournisseurs figurant sur une liste approuvée. Seul le ministère fédéral des Travaux publics a recours régulièrement aux appels d'offres ouverts qu'il rend publics. Cela signifie qu'une entreprise doit figurer sur une liste pour être fournisseur du gouvernement. Les entreprises peuvent se faire inscrire sur différentes listes; les échelons de gouvernement publient des documents visant à aider les entreprises à se faire inscrire leurs produits ou leurs services.

Outre la recherche d'un bon rapport qualité-prix, les politiques d'achat des gouvernements peuvent comprendre des exigences précises. Tout d'abord, entre autres, sur le contenu canadien ou le développement régional. Selon l'exigence la plus courante, les fournisseurs dont les produits ont un contenu étranger élevé sont pénalisés. Les fournisseurs sont

tendus d'évaluer le contenu non canadien de leur offre, et celle-ci se voit imposer une pénalité maximum de 10 pour 100 du prix correspondant à ce contenu.

Le Processus d'examen du développement industriel (PEDI) du gouvernement de l'Ontario vise à utiliser les achats du gouvernement pour favoriser le développement des entreprises. Ce programme comporte l'examen de tous les achats d'un montant supérieur à 250 000 \$ dans le but d'encourager le développement industriel. Le PEDI n'a pas été appliqué à l'échelle du gouvernement, et il a eu une incidence négligeable sur les décisions d'achat, sans doute parce que la plupart de ces achats mettaient en jeu une somme inférieure à 250 000 \$.

Selon le rapport du Conseil du premier ministre, les achats sont si bien répartis parmi les fournisseurs ontariens qu'aucune compagnie n'a pu obtenir une clientèle suffisante pour devenir concurrentielle et fabriquer des produits à bas prix de manière à se servir de sa production canadienne comme tremplin pour devenir exportateur. Le Conseil a recommandé l'adoption d'un plan stratégique d'approvisionnement visant à accorder des contrats importants aux entreprises qui ont les ressources et la volonté nécessaires pour s'infiltrer sur les marchés mondiaux. Un tel plan aurait évidemment des répercussions sur les petites entreprises qui sont fournisseurs du gouvernement.

Bien qu'il soit efficace dans certains cas, le lobbying est coûteux et constitue souvent une activité moralement douteuse. En général, les petites entreprises n'y ont pas recours. Cependant, il est utile de faire connaître les produits, les services et les capacités de son entreprise aux responsables du ministère ou du comité qui évaluent les achats et les soumissions, particulièrement si une bonne partie du montant de la soumission s'applique à des services ou à l'apport de connaissances spécialisées.

Les entrepreneurs devraient faire tout en leur pouvoir pour s'assurer que la communication est bonne entre le ministère client et leur compagnie. Les soumissions doivent être complètes, claires et sans ambiguïté, et le suivi doit être assuré personnellement si possible. Si la soumission est rejetée, il faut déterminer pourquoi afin de mieux planifier sa prochaine soumission.

Il est utile d'entretenir des rapports personnels avec les organismes et les ministères clients pour les tenir informés au sujet des produits et des services de l'entreprise et pour obtenir rapidement des impressions sur les prix, les services ainsi que la qualité et l'utilité de ses produits.

En outre, le gouvernement fédéral organise des conférences sur la situation de l'approvisionnement ainsi que des séances d'information



pour les fournisseurs dans le but d'informer le monde des affaires de ses besoins futurs.

## LES OBSTACLES À LA PARTICIPATION

Plusieurs obstacles s'opposent à la participation active des petites entreprises au processus d'approvisionnement du gouvernement.

Du point de vue du gouvernement, la fiabilité du fournisseur constitue un facteur important. Il faut donc convaincre l'organisme acheteur que son entreprise est stable et qu'elle dispose de ressources financières suffisantes pour respecter ses engagements en vertu de l'entente d'approvisionnement. Cela ne posera pas de problèmes si l'entente porte sur un produit standard qui fait partie de la production normale de la compagnie. Cependant, si l'entreprise est nouvelle ou inconnue, ou si le contrat porte sur une partie importante de sa production, le fait de ne pas établir de rapports avec les organismes clients au cours du processus d'appel d'offres peut entraîner le rejet de la soumission, même si le prix demandé est le plus bas.

Du point de vue des petites entreprises, l'obstacle le plus important est la réglementation et la paperasserie qui accompagnent le processus d'approvisionnement et qui font augmenter les frais d'exploitation. Comme le gouvernement cherche également à réaliser des économies, ses contrats peuvent donner lieu à une marge brute plus faible que la normale, ce qui constitue une situation dangereuse pour de nombreuses petites entreprises. En outre, si le contrat offert par le gouvernement porte sur une partie importante de la production de la compagnie, il faut envisager les effets d'une production en dents de scie et déterminer ce qui arriverait à l'entreprise si elle ne décrochait pas un contrat semblable l'année suivante.

Certains frais, tels que ceux engagés pour la conception et la certification de composantes selon une norme militaire pour le ministère de la Défense nationale, sont inévitables. D'autres dépenses immédiates importantes, comme le temps consacré à la préparation du produit ou de la soumission elle-même, peuvent être généralement récupérées si l'entreprise décroche le contrat. Cependant, si la soumission est refusée, ces frais doivent être absorbés. Même si l'entreprise décroche le contrat, les complexités administratives peuvent retarder les paiements pendant une période plus longue que la normale, et l'entreprise devra absorber les frais financiers associés au financement théorique des comptes-clients.

Pour réduire le coût de la soumission et améliorer les chances qu'elle soit acceptée, il faut se mettre à la place des personnes qui auront à

accorder le contrat. On doit ainsi utiliser les formulaires standard du gouvernement et les remplir correctement et complètement, pour fournir au gouvernement les renseignements de base qui lui sont nécessaires pour évaluer la soumission. On peut également joindre des documents qui soulignent les avantages du produit, afin de distinguer la soumission des autres. La soumission devra se distinguer non seulement par le prix, mais également par son exhaustivité et son professionnalisme, car le prix constitue rarement le seul critère sur lequel se fonde l'attribution d'un contrat. Une attention particulière doit être portée à la communication entre l'entreprise et le gouvernement; l'entrepreneur doit se faire connaître et chercher à savoir ce dont le gouvernement a vraiment besoin.

Il est important de comprendre la différence entre les divers types de demandes d'offres du gouvernement : les demandes de prix, les demandes de propositions et les appels d'offres, qui peuvent donner lieu à des soumissions différentes. Par exemple, une demande de proposition nécessite généralement une offre et des idées originales en plus du respect des exigences précises énumérées dans la demande.

Enfin, le processus d'approvisionnement du gouvernement fédéral est centralisé au ministère des Approvisionnements et Services et au ministère des Travaux publics, situés à Ottawa. Celui de l'Ontario est décentralisé; il relève des différents ministères, et est de plus en plus réparti à l'échelon régional. Ainsi, la vente aux deux paliers de gouvernement peut nécessiter des approches différentes.

## **La croissance des petites entreprises**

Pour les petites entreprises, la croissance constitue une arme à deux tranchants. Plusieurs chapitres du présent rapport traitent des problèmes qu'elle peut poser sur les plans des finances et de la gestion.

Les problèmes financiers causés par la croissance sont généralement faciles à comprendre : ainsi, le taux optimal de croissance des ventes et de la production dépasse presque toujours la capacité de l'entreprise de les financer par des mouvements internes de trésorerie. Si l'entreprise est solvable, qu'elle est bien gérée et que son avenir est prometteur, elle pourra réunir des sommes suffisantes provenant des sources mentionnées au chapitre 8. Cependant, il est beaucoup plus difficile pour l'entreprise en difficulté de trouver de l'argent pour prendre de l'expansion.

Dans une grande société, la gestion peut être confiée à plusieurs vice-présidents; cependant, la plupart des petites entreprises ne comptent qu'un ou deux cadres supérieurs. Le propriétaire, quant à lui, doit con-



sacrifier beaucoup de son temps et de ses capacités à diriger son entreprise. Il est possible qu'il soit un entrepreneur, un ingénieur ou un vendeur fantastique, mais il est très peu probable qu'il puisse tout faire, particulièrement pendant les périodes de forte croissance et d'expansion. Dans cette situation, le propriétaire peut se voir forcé de déléguer des pouvoirs de direction à des spécialistes de différents domaines. Il est étonnant de constater le nombre d'entrepreneurs qui attendent d'arriver au seuil de la faillite avant de s'y résoudre.

Le gouvernement de l'Ontario est très intéressé à aider les compagnies à connaître une croissance rapide. L'essor et le développement continus du marché du capital de risque aideront à régler les problèmes financiers associés à la croissance. Cependant, le problème de la gestion, c'est-à-dire celui qui consiste à décider du moment où il faut accepter de déléguer des pouvoirs, n'est pas aussi facile à résoudre, bien qu'on puisse arriver par l'éducation.

À l'aube des années 1990, la formation professionnelle joue un rôle de plus en plus important dans l'essor des petites entreprises ontariennes. La concurrence internationale devenant de plus en plus forte, la réussite d'une entreprise dépend de sa capacité à appliquer les mêmes normes de qualité et à offrir les mêmes prix que ses concurrents étrangers. Pour égaler, voire surpasser leur performance, il lui est essentiel de disposer d'une main-d'œuvre bien formée et hautement qualifiée.

La complexité croissante des nouvelles techniques utilisées au travail, et donc de l'équipement, suppose un personnel compétent. Au Canada, l'informatique touche environ un emploi sur dix et, d'après les projections, les technologies de système dans l'industrie manufacturière, en particulier dans les activités de fabrication automatisées et la conception assistée par ordinateur, vont jouer un rôle de plus en plus important. Cependant, ces nouvelles techniques sont coûteuses à mettre en place, et le matériel doit être entretenu et utilisé par des spécialistes.

Les employés doivent souvent être formés dans divers domaines. Ils doivent avoir, dans tous les cas, des connaissances en gestion et en marketing. Le sens de l'analyse et l'entregent sont indispensables au travail d'équipe, à la résolution des problèmes et des conflits et à la communication, surtout dans les entreprises de services où l'accent est mis sur la personne et où, par conséquent, les employés constituent le plus grand coût de l'employeur.

Les petites entreprises ont l'habitude d'engager des employés qui ont été formés dans de grandes compagnies, mais cette pratique devra probablement cesser. Avec l'essor de l'informatisation, même les plus petites entreprises devront assurer le perfectionnement de leurs employés. Il

est indispensable d'organiser fréquemment des cours de perfectionnement professionnel afin de répondre aux besoins variés de l'entreprise.

Or, pour ces employeurs, qui n'ont en général ni de véritables structures de formation, ni d'agents de formation, il est particulièrement difficile d'offrir régulièrement des cours de formation adéquats, sans oublier que le coût d'un tel programme les met, en plus, dans une position désavantageuse face aux grandes entreprises et aux entreprises étrangères. Il est donc important que ces employeurs puissent avoir recours à des spécialistes de l'extérieur qui les aideront à préparer des programmes de formation individualisés et à les mettre en oeuvre.

## **Le financement des entreprises**

Deux types de financement sont possibles : le financement par actions et le financement par emprunt.

Dans le cadre du financement par actions, des sommes sont avancées en retour d'une participation dans l'entreprise. Les personnes qui versent du capital de risque dans l'entreprise deviennent copropriétaires de celle-ci et participent aux profits (et aux pertes) futurs. Le capital de risque présente l'avantage qu'il n'a pas à être remboursé, et qu'il ne fait pas l'objet de paiements réguliers d'intérêts. Il faut par contre renoncer à une partie de la propriété de l'entreprise. Les propriétaires profitent de la croissance de l'entreprise, mais assument également les risques d'échec : c'est pour cela que l'argent qu'ils investissent est désigné sous le nom de capital de risque.

Dans le cadre du financement par emprunt, des sommes sont avancées à l'entreprise à la condition qu'elles soient remboursées, soit à un moment déterminé (prêt remboursable sur demande), soit régulièrement sur une certaine période. En retour, des intérêts sont imposés. L'entrepreneur demeure le seul propriétaire de l'entreprise; cependant, pour garantir le prêt, lui et son entreprise devront habituellement donner en garantie des biens d'une valeur au moins égale aux sommes avancées. Si le prêt n'est pas remboursé comme convenu, ces biens peuvent être confisqués par le prêteur à titre de compensation.

Les petites entreprises font généralement appel à la fois au financement par emprunt et au financement par actions. Le capital de risque provient souvent d'amis et de membres de la famille de l'entrepreneur, et les emprunts sont contractés auprès de banques à charte et souvent garantis par des biens personnels, tels que la maison familiale. Les petites entreprises peuvent également faire appel à une troisième source de financement, c'est-à-dire les prêts et les subventions que leur offrent les

différents échelons de gouvernement. Cette dernière source n'est pas exploitée par toutes les petites entreprises, souvent en raison des sommes d'argent relativement peu élevées qu'elles pourraient obtenir et à cause de la paperasserie et de la réglementation qui accompagnent certains programmes d'aide. D'autres sources de financement sont abordées au chapitre 8.

Les entrepreneurs sous-estiment invariablement le temps et les dépenses nécessaires pour financer leur entreprise et surestiment les revenus qu'ils en tireront. Ainsi, peu après son établissement, la compagnie se trouve presque toujours aux prises avec des problèmes financiers qui peuvent la mener à la faillite à moins qu'elle n'ait accès à du financement d'urgence, ce qui est extrêmement rare. Ce problème peut frapper même les entreprises qui écoulent toute leur production. Pour éviter cette situation, il faut recueillir des sommes plus élevées que ce qui semble nécessaire pour le démarrage. Ces sommes pourront servir de réserve stratégique qui permettra à la petite entreprise de surmonter les nombreuses difficultés qui peuvent survenir au début de son développement.

### *Le financement par emprunt*

Le financement par emprunt des petites entreprises est assuré principalement par les banques à charte canadiennes. Même les programmes d'aide gouvernementaux sont souvent gérés par les banques. Les petites entreprises représentent environ 25 pour 100 du portefeuille de prêts des banques à charte.

Il ne faut pas oublier que les sommes prêtées par les banques ne constituent pas du capital de risque. Les banques exigeront des garanties : une preuve de l'engagement financier du propriétaire dans l'entreprise. Celui-ci aura donc plus de chances d'obtenir un prêt si son projet d'entreprise est bien fait. La négociation d'un prêt ne constitue d'ailleurs que le début de rapports à long terme concernant le financement de l'entreprise, qui doivent être entretenus par l'échange de renseignements et un sentiment de confiance mutuelle.

Dans leurs finances personnelles, bien des gens évitent de s'endetter, mais pour les entreprises, ce n'est peut-être pas la meilleure chose à faire. En effet, beaucoup d'entreprises pourraient devenir plus rentables si elles avaient recours à un certain levier financier. Les compagnies qui n'empruntent pas connaîtront peut-être une croissance plus lente que les autres.

Les entrepreneurs qui ont élaboré un projet d'entreprise valable mais

qui se sont vu refuser un prêt bancaire peuvent recourir à différents programmes gouvernementaux. Par exemple, un programme fédéral établi dans le cadre de la Loi sur les prêts aux petites entreprises (LPPE) garantit 85 pour 100 du prêt contracté par une entreprise qui répond à certains critères. Cela permet aux banques de financer des investissements qui présentent plus de risques que la moyenne. La restriction la plus importante de ce programme est que les sommes accordées doivent servir à l'amélioration ou à l'acquisition de biens servant à la production, et non à augmenter le fonds de roulement ou à financer les dépenses d'exploitation.

La Banque fédérale de développement (BFD), dont le mandat est de favoriser le développement des entreprises canadiennes et qui se spécialise dans le financement de projets de lancement d'entreprise qui ont été refusés par les banques, constitue une autre source de financement. Pour compenser les risques élevés, la BFD exige des taux d'intérêt supérieurs. (En outre, elle fournit des services et de la formation en gestion et organise des séminaires, et peut être très utile à votre entreprise, même si vous n'êtes pas l'un de ses clients.)

Les sociétés de développement, qui ont des bureaux dans toutes les régions de la province, sont chargées de l'application de plusieurs programmes provinciaux. Elles offrent des prêts à terme, des subventions pour le paiement d'intérêts et des garanties aux entreprises qui présentent des risques élevés. La Société de développement de l'Ontario (SDO), qui est responsable du programme Nouvelles entreprises, offre des garanties pour des prêts contractés par des entreprises qui démarrent. Seuls les intérêts sont exigibles au cours de la première année. L'entreprise doit effectuer un examen de ses activités tous les six mois, ce qui aide les emprunteurs qui n'ont pas de projet d'entreprise à s'organiser.

### *Le financement par actions*

Dans le cadre de cette forme de financement, c'est le plus souvent la famille ou les amis de l'entrepreneur qui sont les premiers à lui avancer de l'argent en retour d'actions de la compagnie. La plupart des nouvelles entreprises ne font jamais appel au financement par une société de capital de risque; il est cependant possible qu'elles en aient besoin après avoir connu une certaine croissance.

L'industrie du capital de risque n'est pas aussi importante au Canada qu'aux États-Unis, mais comme la création de nouvelles entreprises s'accélère et que d'importants régimes de retraite y orientent une partie



le leurs ressources, elle est en plein essor.

De nombreux entrepreneurs sont réticents à vendre des actions car ils ont peur de perdre le contrôle ou les profits de leur compagnie. Cependant, les sociétés de capital de risque ne cherchent presque jamais de prendre le contrôle des compagnies; elles ne sont pas intéressées à les diriger. En outre, puisque le taux de croissance d'une compagnie bien financée peut être fortement supérieur à celui d'une compagnie qui manque d'argent, le financement par capital de risque peut entraîner des profits plus élevés pour le propriétaire.

Les sociétés de capital de risque visent à retirer leur mise de fonds après trois à cinq ans, car la plus grande partie de leur rendement sera sous forme de gains en capital, et non de dividendes. Ainsi, il est plus probable qu'elles investissent dans des compagnies jeunes qui connaissent une forte croissance, plutôt que dans des compagnies qui démarrent et dont la création remonte à un certain temps. Pour combler cette lacune, les différents échelons de gouvernement cherchent donc à fournir des capitaux de lancement aux entreprises qui démarrent, qui peuvent ainsi profiter des avantages du capital de risque.

Un programme ontarien permet aux particuliers et aux entreprises de mettre sur pied une compagnie pour l'expansion des petites entreprises (CEPE), qui investit ensuite dans une petite entreprise. Les investisseurs reçoivent une subvention en argent ou sous forme de crédit d'impôt équivalant à 25 pour 100 de leur investissement, et continuent à participer à la croissance de la petite entreprise à titre d'actionnaires.

Dans le cadre du Régime d'actionnariat des employés (RADE), des subventions sont offertes aux employés admissibles qui veulent acheter des actions de l'entreprise où ils travaillent en vertu d'un régime d'actionnariat enregistré auprès du ministère du Revenu. Les employés qui achètent des actions en vertu d'un régime enregistré peuvent demander une subvention équivalant à 15 pour 100 du prix d'achat des actions, jusqu'à concurrence de 300 \$ par année. Il peut se révéler très utile de permettre à ses employés d'acheter des actions de son entreprise, non seulement parce qu'ils constituent alors une source de financement supplémentaire, mais également parce qu'ils seront plus intéressés auparavant à ce que la compagnie réalise des profits, ce qui les motivera et les encouragera à aider la compagnie à réussir sur le plan financier.

La Société Innovation Ontario, associée à la SDO, contribue au démarrage d'entreprises de haute technologie en leur fournissant des fonds de lancement. Cet investissement peut être progressivement rattrapé par l'entreprise (comme s'il s'agissait du remboursement d'un

prêt) ou retiré par la vente d'actions à un tiers, selon les modalités négociées par l'entreprise et la Société Innovation Ontario. La Société offre également de l'aide sur le plan technique et sur celui de la commercialisation.

## Programmes d'aide gouvernementaux

Ce dont les petites entreprises semblent avoir le plus besoin, c'est d'argent, mais ce n'est pas forcément le cas. Même une compagnie bien financée peut faire faillite si elle est mal gérée. L'importance de l'esprit d'entreprise pour la santé économique du pays est reconnue de tous, et les personnes qui sont intéressées à diriger leur propre entreprise peuvent profiter de nombreux programmes gouvernementaux visant à les informer et à les aider.

Les librairies et les bibliothèques peuvent mettre à la disposition des entrepreneurs d'excellents ouvrages qui les aideront à préparer un projet d'entreprise. Le ministère de l'Industrie, du Commerce et de la Technologie de l'Ontario (MICT) a mis au point un séminaire et publié un ouvrage intitulé *Fondation d'une petite entreprise en Ontario*, qui permettent d'obtenir des renseignements pratiques sur les projets d'entreprise. En outre, la Banque fédérale de développement donne un cours sur le démarrage d'une petite entreprise.

Presque toutes les universités ontariennes offrent aux petites entreprises un service de consultation à peu de frais. Les deux tiers de ces centres sont ouverts toute l'année, et les autres seulement durant l'été.

Six centres d'entrepreneuriat, situés dans certains collèges et universités, invitent des experts de l'extérieur à évaluer des projets d'entreprise et à conseiller les nouveaux entrepreneurs, même si leur principale raison d'être est d'effectuer des études sur l'esprit d'entreprise.

Des centres d'information ont été ouverts dans de nombreuses localités. Ces centres mettent à la disposition des personnes qui prévoient lancer une nouvelle entreprise une bibliothèque et les services d'un expert-conseil.

TVOntario, le réseau de télévision éducative de la province, diffuse un certain nombre d'émissions, telles que la série populaire intitulée *Frontrunners*, qui portent sur le lancement et l'exploitation d'une entreprise. Les émissions sont diffusées à plusieurs reprises pendant l'année, et certaines d'entre elles permettent d'obtenir des crédits de niveau collégial.

Dans le cadre de ses deux programmes Mise en marche, Capital



d'entreprise pour les jeunes et Capital d'entreprise pour les étudiants, le ministère de la Formation professionnelle de l'Ontario offre des prêts sans intérêt aux jeunes qui ont de bonnes idées et qui veulent lancer une entreprise. Ces programmes sont gérés en collaboration avec la Banque Royale du Canada et la Chambre de commerce de l'Ontario, par l'entremise des chambres de commerce locales.

Le programme Initiatives locales pour le développement des entreprises de la Banque fédérale de développement (BFD) aide les entrepreneurs et leurs entreprises à trouver la voie de la croissance et de la prospérité. Ce programme est fondé sur des cours pratiques qui aident l'entrepreneur à utiliser au maximum les ressources dont il dispose et à faire fructifier les bénéfices de son entreprise.

Operation Youth, société fédérale à but non lucratif, a mis sur pied un programme visant à aider les jeunes à lancer leur propre entreprise. Dans le cadre de ce programme, les jeunes acquièrent des connaissances en matière de commerce et de gestion et reçoivent les conseils de spécialistes auxquels ils n'auraient pas normalement accès. Le programme appuie l'entreprise au cours de ses trois premières années d'exploitation par les services suivants :

- Séance de formation de trois jours sur le lancement et l'exploitation d'une petite entreprise;
- Conseils continus sur tous les aspects de la gestion d'une petite entreprise pendant trois ans;
- Accès à un système informatique sur les programmes d'aide auxquels peuvent faire appel les jeunes entrepreneurs;
- Association qui regroupe un certain nombre d'entreprises dans le but de réduire les frais généraux et de tirer des avantages de la coopération.

Le programme Youth Enterprise du YMCA, service gratuit qui aide les jeunes entrepreneurs à planifier et à lancer leur propre entreprise, est destiné aux personnes de 18 à 30 ans qui n'occupent pas un emploi à temps plein. Dans le cadre d'un programme de formation de 10 semaines, les jeunes apprennent les différentes étapes du lancement d'une entreprise, en particulier les notions fondamentales de tenue de registres, de commercialisation, de finance et d'exploitation. Un suivi est également fourni pendant la première année d'exploitation de l'entreprise.

Le ministère de la Formation professionnelle offre aux petites entreprises ontariennes une aide individualisée. En collaboration avec le

personnel des bureaux de consultation en formation professionnelle du ministère, situés un peu partout en Ontario dans les collèges d'arts appliqués et de technologie, les employeurs définissent leurs besoins en formation et préparent des programmes détaillés.

Ces bureaux veillent également à l'application du Programme de formation professionnelle de l'Ontario, destiné à défrayer les petites entreprises d'une partie de leurs frais de formation. Ainsi, une entreprise de 200 employés ou moins peut se faire rembourser jusqu'à 80 pour 100 de ses coûts de formation directs.

Dans le cadre du Programme d'apprentissage, les entreprises engagent des stagiaires dans le but de leur donner une véritable formation technique, acquise en cours d'emploi et complétée par des cours théoriques. Le personnel spécialisé d'une entreprise peut également suivre une formation complémentaire grâce au Programme de recyclage de la main-d'oeuvre qualifiée, qui est offert gratuitement dans les collèges d'arts appliqués et de technologie, en milieu de travail et par des organismes de formation.

Autre service offert gratuitement aux employeurs, le Programme de recyclage des techniciens et des technologistes met l'accent sur les nouvelles technologies, comme la conception assistée par ordinateur, la gestion des technologies et les techniques de communication.

En outre, dans le cadre du Programme de formation de base en milieu de travail, le ministère assume jusqu'à 100 pour 100 des frais de formation des employeurs qui organisent pour leurs employés des cours de perfectionnement en lecture, écriture et calcul.

Sous le titre Planification de l'emploi, le gouvernement fédéral gère un certain nombre de programmes de formation concernant les petites entreprises, comme le programme Pénuries de main-d'oeuvre spécialisée qui participe aux frais de perfectionnement qu'engagent les employeurs pour aider leurs employés qui occupent des emplois où il existe ou risque d'exister une pénurie de main-d'oeuvre spécialisée, selon la classification du gouvernement fédéral. Citons aussi le programme Acquisition de compétences qui aide les travailleurs menacés par l'évolution technologique et économique à changer de profession.

# Renseignements

- Pour obtenir de plus amples renseignements sur les programmes d'aide aux petites entreprises du MICT, téléphonez sans frais à Renseignements Petites Entreprises, au 1-800-387-6142.
- Le MICT organise des séminaires et publie différents documents, notamment *Fondation d'une petite entreprise en Ontario*, ouvrage destiné aux nouveaux entrepreneurs, qui contient des renseignements pratiques sur les projets d'entreprises, l'aide gouvernementale et la législation touchant les petites entreprises. Communiquez avec le :

Service des publications de l'Ontario  
880, rue Bay  
Toronto (Ontario) M7A 1N8

(416) 965-6015

Si vous êtes à l'extérieur de la région de Toronto, composez le 1-800-268-7540.

Si votre indicatif régional est 807, demandez au (à la) téléphoniste le Zénith 67200.

- Pour vous abonner à *Petite entreprise Ontario*, écrivez à

Petite entreprise Ontario  
Édifice Hearst  
900, rue Bay, 7<sup>e</sup> étage  
Queen's Park  
Toronto (Ontario) M7A 2E3.

- Pour obtenir de plus amples renseignements sur l'aide financière des sociétés de développement, adressez-vous au :

56, rue Wellesley ouest, 5<sup>e</sup> étage  
Toronto (Ontario) M7A 2E7  
(416) 965-4622

- Vous pouvez obtenir de plus amples renseignements sur la Société Innovation Ontario à l'adresse suivante :

Société Innovation Ontario  
56, rue Wellesley ouest, 7<sup>e</sup> étage  
Toronto (Ontario) M7A 2E7  
(416) 963-5717

- Votre succursale de la Banque de Montréal peut mettre à votre disposition une série de dépliants sur les petites entreprises (Small Business Problem Solver). D'autres banques de votre région pourraient également vous offrir des publications utiles.
- L'Association des banquiers canadiens publie un excellent manuel intitulé *Le financement d'une petite entreprise - Sachez entretenir des relations harmonieuses avec votre banque*. Pour en recevoir un exemplaire, écrivez à :

L'Association des banquiers canadiens  
C.P. 348, bureau 600  
2, First Canadian Place  
Toronto (Ontario) M5X 1E1

- On peut obtenir un dépliant et d'autres renseignements sur le programme de CEPE en écrivant au :

Programme des compagnies pour  
l'expansion des petites entreprises  
Ministère du Revenu  
33, rue King ouest  
C.P. 625  
Oshawa (Ontario) L1H 8H9

- Pour obtenir des renseignements au sujet du Régime d'actionnariat des employés (RADE), téléphonez à frais virés au (416) 430-ESOP.
- Pour des renseignements sur les programmes de la Banque fédérale de développement, écrivez à la :

Banque fédérale de développement

C.P. 335

Succursale Tour de la Bourse  
Montréal (Québec) H4Z 1L4

(514) 283-5904

(416) 973-0062

ou téléphonez à la succursale de votre région.

- Pour obtenir de plus amples renseignements sur les programmes d'aide à l'exportation du gouvernement de l'Ontario, adressez-vous au bureau local du MICT, téléphonez ou écrivez à :

Commercialisation à l'étranger

900, rue Bay

Édifice Hearst, 5<sup>e</sup> étage

Toronto (Ontario)

M7A 2E1

Téléphone : (416) 963-2500

Télécopieur : (416) 965-7791

- Le centre de renseignements sur le commerce extérieur du ministère des Affaires extérieures peut vous mettre en contact avec d'autres organismes fédéraux, tels que la Société pour l'expansion des exportations ainsi que la Corporation commerciale canadienne, et vous fournir des renseignements sur les programmes du MAE tels que WIN et sur les activités de promotion du commerce. Téléphonez à Info Export au 1-800-267-8376, ou au (613) 993-6435 dans la région d'Ottawa.
- Pour obtenir des renseignements sur les centres de consultation pour les petites entreprises des universités ontariennes (à l'exception de l'Université de Guelph), téléphonez à la faculté de commerce de l'université la plus proche qui vous indiquera comment entrer en contact avec le centre de votre localité.
- Voici la liste des six centres d'entrepreneuriat :

Le Centre d'entrepreneuriat de Ryerson

Le Centre d'entrepreneuriat de North Bay (Collège Canadore et Collège Nipissing)



Le Centre d'entrepreneuriat de l'Université Lakehead et du Collège Confederation

Entreprise York (à l'Université York)

Le Centre d'entrepreneuriat de l'Est de l'Ontario (situé à l'Université Queen's, au Collège St. Lawrence et au Collège Loyalist)

Le Centre d'entrepreneuriat du Collège Centennial

- Pour obtenir des renseignements sur les cours offerts par TVOntario, téléphonez au 1-800-268-6255.
- Pour obtenir des renseignements sur le programme Mise en marche, dans le cadre duquel le ministère de la Formation professionnelle offre des prêts sans intérêt aux jeunes voulant lancer une entreprise, communiquez avec une chambre de commerce, une succursale de la Banque Royale, ou avec le service de placement d'une école secondaire, d'un collège communautaire ou d'une université, ou encore téléphonez à Renseignements Jeunesse au 1-800-387-0777.
- Pour des renseignements sur les Initiatives locales pour le développement des entreprises, communiquez avec la BFD au (416) 973-1144.
- Pour en savoir plus sur Operation Youth, composez le (416) 861-1812.
- Pour des renseignements sur le programme Youth Entreprise du YMCA, communiquez avec le YMCA de votre localité; à Toronto, composez le 651-0010.
- Pour obtenir des renseignements sur le CTFAO, communiquez avec le :

Centre de technologie de fabrication avancée de l'Ontario  
190, promenade Attwell, bureau 402  
Rexdale (Ontario) M9W 6H8

(416) 675-4363



- Pour inscrire vos produits ou services dans la base de données centrale du gouvernement de l'Ontario, il suffit de remplir une demande de renseignements sur les fournisseurs que vous pourriez vous procurer au :
- Service de renseignements sur les fournisseurs  
Édifice Ferguson, 6<sup>e</sup> étage  
Queen's Park  
Toronto (Ontario) M7A 1N3  
(416) 965-6937
- Pour obtenir un exemplaire gratuit du *Guide des responsables des achats du secteur public de l'Ontario* destiné à ceux qui veulent devenir fournisseurs du gouvernement de l'Ontario, téléphonez à la Direction de l'expansion commerciale au (416) 965-1809.
- Pour obtenir de plus amples renseignements sur les programmes de formation et les services du ministère de la Formation professionnelle, composez le 1-800-387-5656.



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# **Appendix: Small Business Advocacy Reports**

These research reports are available from Small Business Advocacy, Ministry of Industry, Trade and Technology, 7th Floor, Hearst Block, 900 Bay Street, Toronto, Ontario M7A 2E1 (416) 965-6304.

## **Survey of Small Business Registrants, 1984 (October 1984)**

Results of interviewing 911 Ontario entrepreneurs about the businesses they start. Includes information on investment, hiring intent, previous experience, type of business, why the business was started and demographics.

## **Self-Directed RRSP Investment in Private Companies (May 1985)**

Survey of characteristics of holders of self-directed RRSPs (150 people). Results compared to information obtained from 2,000 people when they either opened self-directed RRSPs or transferred funds to such an RRSP. Survey was conducted on behalf of SBA by Decision Marketing Research Ltd.

## **Expanding Ontario's Small Business Development Corporations Program to Business Services (May 1985)**

Argument for extending eligibility under Ontario's SBDC program to Ontario's business service firms. Also argues for expansion of SBDC's existing Match-up Service to introduce appropriate SBDC investors and small business owners and emphasize smaller placements of equity.

## **An Advance Notice System for Proposed Regulatory Initiatives (September 1985)**

Proposal to create an Advance Notice System in Ontario. Includes an examination of advance notice in place in other jurisdictions, description of Ontario's history with respect to advance notice, identification of principles to be considered in any improvement of the regulatory process and policy options and recommendations.

5. **Newly-Formed Small Businesses in Ontario, 1982-84 (August 1985)**  
Results of interviewing 861 Ontario entrepreneurs. Provides a profile of Ontario's small business owners and their attitudes about various issues and programs, as well as a comparison of unincorporated and incorporated businesses. As well, the research provides a profile of the kinds of businesses that are started and remain viable. Survey was conducted on behalf of SBA by The Creative Research Group.
6. **Small Business Payroll Taxes (March 1986)**  
The economic implications of payroll taxation on small businesses are examined. Also looks at the effects of abolishing Ontario Health Insurance Plan premium payments and replacing the payments with a 2% employer-paid payroll tax. Features an examination of impacts on an average small business, a garage, a restaurant, a construction firm and a manufacturer.
7. **Small Business Regulation and Paperburden (March 1986)**  
A joint project of SBA and the Department of Regional Industrial Expansion, Ontario Region, the study identifies and clarifies specific areas of regulatory and paperburden in Ontario's small business community. Looks at problems and problem sources identified by the general economic sectors and more specifically the tourism sector. Survey was conducted by The DPA Group Incorporated.
8. **Entrepreneurship and Small Business (May 1986)**  
A discussion paper tabled in the Ontario Legislature by the Minister of Industry, Trade and Technology, the Honourable Hugh O'Neil, as a supplement to the Ontario Budget of April 1986. Describes: entrepreneurship in Ontario, new business formation and small firm performance.
9. **The Ontario Investment Network (April 1986)**  
Describes the rationale for the establishment of the Ontario Investment Network (presently operated by the Ontario Chamber of Commerce under the name Computerized Ontario Investment Network - COIN). Discusses the chronic shortage of equity capital suffered by the small business community across Canada.

10. **New Small Businesses (April 1986)**  
The 1986 survey of new unincorporated business starts. The results of 1,118 interviews show the age, sex, previous ownership and employment experience of new business owners as well as the reasons for starting the business. The study also breaks down the startups by sector and expected billings and source of investment.
11. **New Ventures: A Loan Guarantee Program for New Businesses in Ontario (June 1986)**  
Describes rationale for the New Ventures Program, announced in the Speech from the Throne in April 1986. Discusses access to financing problems of small businesses. Shows design of the New Ventures program including details on eligibility criteria, program administration, roles of co-sponsors, application processes and costs of program. A project of the Committee of Parliamentary Assistants for Small Business and Rick Ferraro, Small Business Advocate.
12. **Small Business Capitalization and Proposed Pension Investment Reforms (August 1986)**  
SBA submission to the Pension Commission of Ontario regarding the policy recommendations for the regulation of pension fund investments. Argues for expanding the universe of eligible pension fund investments to include more small businesses. Includes copy of the Pension Commission recommendations.
3. **Targetting Employee Share Ownership Plans to Small Business (September 1986)**  
Describes the rationale for targetting the Employee Share Ownership Plans program (announced in the June 1986 Budget) to small businesses. Provides recommendations on how the plan's optimum use by the small business community may be encouraged.
4. **Workers' Compensation Experience Rating: A Claim Deductible Concept (October 1986)**  
The study examines the feasibility of introducing a concept of a claims deductible into the experience rating of claims costs under Workers' Compensation in Ontario. Study was conducted on behalf of SBA by William M. Mercer Ltd.

15. **Hours of Work and Overtime in Small Businesses: Five Case Studies (December 1986)**  
Case studies of hours of work and overtime practices in five Ontario firms: sewer and water main contracting, clothing manufacturer, courier and moving service, lumber and building supply and weigh scale repair and distribution. Qualitative research on attitudes of owners towards overtime and data on firms and their practices.
16. **The State of Small Business (December 1986)**  
The first annual report on small business in Ontario. Features data on: the job creation record and growth of small business, profiles of the small business owner, franchising, women business owners, the aspirations and achievements of new business owners, small business financing and effects of public policy on the small business community. Tabled in the Ontario Legislature in December 1986 by the Minister of Industry, Trade and Technology, the Honourable Hugh O'Neil. A project of the Committee of Parliamentary Assistants for Small Business and Rick Ferraro, Small Business Advocate. Available in French as La Situation des petites entreprises.
17. **University Centres of Entrepreneurship for Ontario (February 1987)**  
Describes rationale for the establishment of centres of entrepreneurship in Ontario universities. Included in the April 1986 Speech from the Throne.
18. **Ontario's Fast-Growth Companies (April 1987)**  
Examines the characteristics of 84 successful Ontario entrepreneurs. Study conducted on behalf of SBA by Decision Marketing Research Ltd.
19. **Small Business Payroll Taxes, 1987 (March 1987)**  
The 1987 update of the 1986 Small Business Payroll Tax study. Focuses on the increasing burden Workers' Compensation places on small businesses.



0. **The Status of Female Employees in Small Business (June 1986)**

Survey of 353 Ontario small business owners (in the manufacturing sector) regarding the status of women in their firms. Examines employment patterns, wage and salary administration, personnel practices and company policies. Also looks at which form of pay equity legislation would least affect the viability of small businesses. Survey was conducted on behalf of SBA by Hay Management Consultants.

**Pay Equity and Ontario's Small Business Sector (June 1986)**

Survey of 302 Ontario small business owners (representing all industrial sectors) regarding the types of personnel practices they follow in their firms. Also includes results of 16 interviews with persons knowledgeable about pay equity and small business regarding how to implement pay equity in small businesses. Survey conducted on behalf of SBA by Urban Dimensions Group Inc.

**Business Transfer Tax: Modelling the Impact on Small Firms (November 1987)**

Study demonstrates how profits and sales in several Ontario small businesses might be affected by the federal government's proposed business transfer tax. Examines eight types of businesses: retail florists (unincorporated and incorporated), retail drug stores (incorp.), retail jewellery stores (incorp.), rubber processors and suppliers (incorp.), fan and ventilator manufacturers (incorp.), engineering processing firms (incorp.) and lodges and motels (incorp.).

**Business Starts in Ontario: An Econometric Analysis and Forecasting Model (August 1987)**

Reports on the determinants of new business starts, including changes in population and labour force, industrial structure and rates of unemployment output growth, costs of borrowing and inflation. Includes a computer-based forecasting model for the next five years. Study carried out by Quantec Research Ltd.

24. **Hours of Work and Overtime in Small Business (January 1988)**

Compares sample of 300 small firms ( fewer than 100 employees) with control group of 60 large firms to assess the impact of recommendations proposed by the Task Force on Hours of Work and Overtime submitted in May 1987. Finds that the proposals are unlikely to have a significant effect on overall average hours worked per week in Ontario, but that some of the recommendations affect small and large firms differently. Small businesses are relatively more affected by proposals to shorten the regular work week from 44 to 40 hours.

25. **Facilitating the Investment of Self-Directed RRSP Funds in Small Businesses (July 1988)**

Examines amendments to the federal Income Tax Act in 1986 permitting holders of Registered Retirement Savings Plans (RRSPs) to invest in small and developing businesses. Recommends simplifying the rules and shifting the burden of compliance from financial institutions to the involved parties. Contends that these changes will increase RRSP investments in small businesses.

26. **Safety Matters: Case Studies of Health and Safety Practices in the Workplace (September 1988)**

Case studies of 13 companies (of which 6 had fewer than 100 employees) examining the differences in approach between large, medium and small firms. Discloses that the larger the company, the more extensive its formal health and safety program. While larger companies have well-developed corporate health and safety philosophies, small firms tend to do positive things in the workplace because the owners care about their employees' welfare and are sensitive to the disruption an accident can cause.

27. **Newly-Formed Small Businesses in Ontario, 1985-87 (August 1988)**

Based on interviews with 1,055 small firms, updates the August 1985 report on newly-formed small companies. Focuses on management, operational and policy issues for both incorporated and unincorporated firms. Special efforts were made to increase the sample size of companies having more than 20 employees in order to better understand the phenomenon of

growth. Discloses that finding and keeping qualified employees is now the top-rated barrier facing young companies.

3. **Employment Standards in Small Firms (March 1988)**

By a telephone survey of 307 small Ontario businesses and a control group of 25 larger firms, examines employee compensation issues, including possible changes to the minimum wage, training, benefits, vacations and leave arrangements, subcontracting and contracting out, and retirement policies.

4. **An Equity Financing Vehicle for Growth Companies (January 1989)**

Discusses a possible Ontario investment vehicle to improve the equity financing of companies with growth potential. Applies the U.S. model of small business investment companies, under which the government guarantees debentures issued by investment companies that specialize in small business. This approach, successfully practiced in the U.S. since 1958, was responsible for the genesis of much of the American venture capital industry. It enabled venture capital firms to multiply their capital under management and operate at a scale sufficient to build up the investment, management, and marketing expertise necessary to manage a portfolio of growing firms.

5. **The State of Small Business, 1987 (December 1987)**

The second annual report on small business in Ontario. Features the Committee of Parliamentary Assistants for Small Business' proposal for a small business impact statement (SBIS) to set out in cabinet submissions the impact on the small business community of proposed changes in Ontario policy, legislation and regulations. Concentrates on the dynamic growth of small businesses in Ontario and includes research findings on where the jobs are coming from, the performance of successful young companies, remaining barriers to growth and the government's response.













Ministry of  
Industry,  
Trade and  
Technology

Province of Ontario  
Queen's Park  
Toronto, Canada  
M7A 2E1

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